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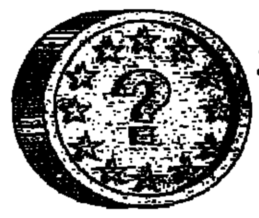

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World Business Newspaper http://www.FT.com TUESDAY NOVEMBER 19 1996

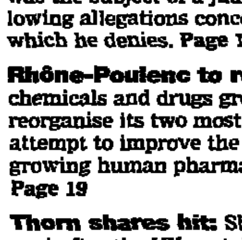
US carmakers hit at sharp rise in Japanese imports

The US car industry hit out over a sharp rise in Japanese car imports as Tokyo's bilateral trade surplus with the US rose for the first time in nearly two years. Andrew Card, president of the American Automobile Manufacturers' Association, attributed the rise to "questionable intervention by the Bank of Japan". Japanese car exports to the US rose 44 per cent last month, the Tokyo finance ministry said, helping to lift Japan's trade surplus with the US by 31 per cent to Y354.8bn ($3.19bn). Page 18

Venture will create packaging giant: A joint venture between Schmalbach, a unit of the German conglomerate Viag, and Pechiney of France is set to create a giant in the European metal packaging industry. Page 19

UK looks at Nazi loot treaty: Britain began moves which could lead to fresh talks on a 1946 agreement under which the Allies waived all future claims on looted Nazi gold held in Switzerland in return for payment of SFr250m ($195m). Page 3

Mattel pays $755m for Tyco Toys



US toymaker Mattel, spurned in its $5.2bn takeover bid for rival Hasbro group, announced an agreement to buy Tyco Toys for $755m. Mattel has a broad range of well-known toys including Barbie dolls (left) and Cabbage Patch Kids. The acquisition will consolidate Mattel's position as the biggest toymaker in the US, with sales last year of $3.6bn, compared with $2.9bn for Hasbro, the number two. Page 19

Belgian deputy PM investigated: Belgian deputy prime minister Elio Di Rupo said that he was the subject of a judicial investigation following allegations concerning paedophilia, which he denies. Page 18

Rhône-Poulenc to reorganise: French chemicals and drugs group Rhône-Poulenc is to reorganise its two most buoyant divisions in an attempt to improve the visibility of its fast-growing human pharmaceuticals businesses. Page 19

Thorn shares hit: Shares in Thorn fell 10 per cent after the UK rental group, which was demerged from EMI three months ago, combined news of fresh litigation moves in the US with caution over north American trading. Page 19; Lex, Page 25

Tosco to pay $1.4bn for Unocal assets: US independent oil refiner and marketer Tosco is to pay a minimum of $1.4bn for the refineries, petrol stations and transport assets of Unocal, a west coast group with a 12 per cent share of the Californian petrol market. Page 19

Colombia holds two after payout: Two German citizens were arrested in Colombia for paying ransom money to the guerrilla kidnappers of the wife of a retired German executive. Page 7

Seoul's OECD bid faces last hurdle: South Korea's agreement for membership of the Organisation for Economic Co-operation and Development faces its last big hurdle tomorrow when opposition parties will attempt to block parliamentary ratification. Page 8

Banana growers take on traders: Agrofair, Dutch company majority owned by banana producers, is putting the produce on sale. Profits which would otherwise have been paid to traders will go towards improving wages, reducing pesticide use and raising reinvestment in the business. Page 10

Pakistan toughens corruption laws: Pakistan president Farooq Leghari announced tough anti-corruption laws for politicians in a move which may lead to those charged with corruption being barred from contesting February's elections. Page 8

Vietnam falls behind repayments plan: Vietnam is two months behind schedule on plans to finalise the terms under which it is to repay about $900m in commercial arrears to London Club creditors, banking sources said. Page 8

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,336.48	(-11.55)
NASDAQ Composite	1,252.26	(-9.54)
Europe and Far East		
CAC40	2,228.81	(-11.52)
DAX	2,763.84	(-31.96)
FTSE 100	3,962.1	(+3.9)
Nikkei	20,796.37	(-133.36)

■ US LUNCHTIME RATES

Federal Funds	$5\frac{1}{4}$
3-mth Treas Bills: Yld	5.142%
Long Bond	$100\frac{1}{32}$
Yield	6.46%

■ OTHER RATES

UK: 3-mo Interbank	$6\frac{3}{8}$	(same)
UK: 10 yr Gilt	$99\frac{1}{32}$	$(99\frac{5}{32})$
France: 10 yr OAT	105.04	(104.9)
Germany: 10 yr Bund	103.03	(102.99)
Japan: 10 yr JGB	103.2041	(102.7141)

■ NORTH SEA OIL (Argus)

Brent Dated	$22.755	(23.205)

■ GOLD

New York: Comex		
(Dec)	$n/a	(381.8)
London:		
close	$379.15	(379.45)

■ DOLLAR

New York: lunchtime		
£	1.6705	
DM	1.50295	
FFr	5.0820	
SFr	1.26925	
Y	111.455	
London:		
£	1.6715	(1.6665)
DM	1.5017	(1.5083)
FFr	5.0760	(5.0953)
SFr	1.2689	(1.2785)
Y	111.42	(111.10)
Tokyo close:	Y 111.17	

■ STERLING

DM	2.5101	(2.5134)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 19.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs60	Syria	S£30.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es325	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Deutsche Telekom shares surge nearly 20% as trading opens

Germans dive into the equity culture

By Wolfgang Münchau and Andrew Fisher in Frankfurt

Germany yesterday took a big step towards becoming a nation of shareholders as the shares of Deutsche Telekom got off to a racing start on the Frankfurt and New York stock markets.

In Frankfurt, the shares of the giant telecoms utility closed at DM33.90 ($22.60), almost 19 per cent above the issue price of DM28.50. On Wall Street, they opened at $22, up 16 per cent on the official price of $18.89.

Some 60m shares were exchanged in the first few hours of hectic trading. More than 2m German private investors bought Telekom shares – roughly half the previous total number of registered shareholders in the country.

Mr Theo Waigel, the country's finance minister, said the Telekom issue showed Germans were no longer "anti-share" and that a considerable potential existed for equity investment in the country. He praised the DM20bn flotation – the second largest in the world after Japan's 1987 sale of Nippon Telegraph and Telephone Corporation – as the "high point of German privatisation history".

Mr Ron Sommer, Telekom's chairman, said the flotation had served not only to strengthen Germany's equity culture but "was also necessary to give Deutsche Telekom a more international outlook, which is critical for a global player".

German ministers and bankers stressed that further stock market issues were now needed to keep up the share-buying momentum unleashed by the Telekom issue.

Analysts and financial advisers yesterday urged the public to hold on to the shares and resist the temptation of a quick profit.

Mr Werner Seifert, chairman of Deutsche Börse, which runs the Frankfurt stock exchange, said there was scope for more privatisations by the federal government, as well as state and local authorities. "The Telekom privatisation must not remain an isolated event," he said.

The total market capitalisation of quoted companies as a proportion of Germany's gross domestic product is only 27 per cent. In the US it is 78 per cent; in the UK, 124. "This leaves a gaping space to be filled," Mr Seifert said.

He cautioned, however, against government moves to tax all capital gains as part of its plans to cut income tax rates while also removing special allowances. At present, capital gains are exempt from tax if shares are held longer than six months. Mr Seifert said taxing capital gains would "drive capital away from shares".

Mr Jürgen Stark, state secretary at the finance ministry, said that the matter was still

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Hectic start: traders begin dealing in Deutsche Telekom shares at the Frankfurt exchange Reuter

France removes head of GAN insurer

By David Buchan in Paris

The French government is to replace Mr Jean-Jacques Bonnaud, the head of the state-owned GAN insurance company, as part of a fresh start to the aborted privatisation of CIC, GAN's banking arm.

The finance ministry confirmed yesterday that Mr Jean Arthuis, the finance minister, had asked Mr Bonnaud to resign and that his successor, likely to be named by the end of the week, would appoint a replacement for Mr Bernard Yoncourt as head of CIC.

The appointment of a new team at GAN and CIC is designed to close the chapter of errors that ended in last Thursday's cancellation of CIC's privatisation.

Two French banks, Banque Nationale de Paris and Société Générale, had bid to buy 67 per cent of GAN's stake in CIC, a grouping of 11 regional banks. But the planned sale drew anger from CIC staff, worried letters from local politicians and public criticism from Mr Yoncourt. He complained that selling CIC to a big Paris-based bank would wreck its regional character.

Mr Arthuis has now turned to CIC's regional bank presidents for advice on how the sale of the group could resume. But a second attempt might not be politically possible this side of the spring 1998 parliamentary elections.

Mr Alain Juppé, the prime minister, who is also mayor of Bordeaux, has come under pressure from the Société Bordelaise de Crédit, a CIC member bank, to abandon the sell-off.

Last month, Mr Arthuis rebuked Mr Yoncourt for his public complaint that an acquisition by either BNP or Société Générale would be the "death knell" of CIC.

But he has also been at odds with Mr Bonnaud. The head of GAN, anxious to preserve the insurer's bancassurance links with CIC – whereby insurance products are sold through banks –

Continued on Page 18

Gazprom to restructure operations

Russian group draws on lessons from road show

By John Thornhill and Andrew Gowers in London

Gazprom, Russia's large gas company which controls a quarter of the west European market, is planning a revamp of its operations.

It aims to shed peripheral activities, introduce stricter market disciplines into its domestic business, and seize a greater share of gas distribution profits.

Mr Rem Vyakhirev, Gazprom's chairman, said the lessons the company had learnt on its recent international road show – when it toured 14 cities to sell 1.15 per cent of its equity to foreign investors for $429m – had given it a more commercial orientation.

"I have worked for 40 years in this industry but I have never heard so much that was good and so much that was bad about us as in the past few months. It has been a very valuable and useful experience," he said in an interview in London.

"Everything that we have learnt has allowed us to speed up solutions to our current problems. As an old-timer in the industry I have learnt a lot of useful lessons."

Mr Vyakhirev said the company would soon appoint a western-style finance director to review the financial strengths of its businesses and dispose of underperforming assets, such as its farms.

Gazprom's senior managers will meet on December 5 to review the group's strategic future.

"It is a question of divesting ourselves of unprofitable businesses and reinvesting in those activities which give us a better return," Mr Vyakhirev said.

This is a seemingly sharp break with the company's mentality, which stressed social responsibilities more than commercial logic.

The traditional image of Mr Vyakhirev has been of an old-school Soviet-era manager more concerned with managing vast development projects than calculating their financial cost.

But Mr Vyakhirev's exposure to western fund managers appears to have driven home the message that Gazprom has to compete in both the international capital and gas markets and has to give more authority to a younger generation of more commercially-minded managers.

If this new rhetoric is followed by similarly tough action, Gazprom could emerge as a far more efficient company and an even more aggressive competitor in the mainland European gas market.

The group is already locked in a struggle with western multinationals to supply the continent's steadily-increasing gas demands.

Mr Vyakhirev had previously told a gas industry conference organised by the Royal Institute of International Affairs that Gazprom was aiming to increase its 24 per cent share of the European gas market but would not neglect its Russian heartlands.

The Gazprom chairman said the company would look to move further downstream towards the customer in all its markets, suggesting intermediaries were demanding too big a share of profits.

Goodyear buys back South Africa business for $121m

By Haig Simonian in London and Sophie Roell in Beijing

Goodyear, the world's third-biggest tyre maker, yesterday became the latest US company to buy back its South African operations with a $121m acquisition – reinforcing its position as South Africa's leading tyre brand.

The move came as Goodyear and Bridgestone, its Japanese rival, were locked in talks to purchase a significant stake in Shanghai Tyre & Rubber, the biggest tyremaker in China, which is listed on the Shanghai stock exchange.

The deals reflect rising interest in tyre making in regions where vehicle demand is expected to soar, and follow heavy investments by the motor industry in South America, Asia and South Africa.

Goodyear is buying 60 per cent of Contred, the tyre and engineered products division of Consol, a subsidiary of Anglovaal, the industrial group. Anglovaal has options to sell the remaining stake in the five years after the deal takes effect next January, while Goodyear has an option to buy the stake in 2002.

Mr Samir Gibara, Goodyear chairman, denied it was paying a premium to reacquire assets sold for a bargain when US companies were pulling out of South Africa for political reasons. Goodyear is believed to have received about $40m for its subsidiary in 1989.

It is now buying into a bigger business. Contred owns a 195-store tyre retailing chain and a 41-plant retreading network as well as the original Uitenhage factory for tyres and rubber belts.

"Anglovaal has invested heavily in the business and profits have risen," said Mr Gibara. "We may have sold cheap, but we're not buying dear."

The purchase follows the recent reacquisition by Bridgestone of the South African plant sold by Firestone, its US subsidiary. "Our return to South Africa is an outstanding opportunity," said Mr Gibara.

He said Goodyear would press ahead with takeovers and joint ventures in regions where vehicle demand was expected to grow. Since 1994, it has struck deals in India, China, Poland and the Philippines. "We think there are significant opportunities in developing markets," he said.

He declined to comment on negotiations over Shanghai Tyre or on reports that Goodyear was vying with Bridgestone to close a deal on a 50 per cent stake in Shanghai Tyre's new showcase Minhang plant by early next year.

"It is somewhat premature," he said. Goodyear had been in talks with Chinese counterparties for three years and discussions tended to be fluid.

Shanghai Tyre has long made it known that it hopes to attract a foreign manufacturer to provide fresh capital.

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Public will see the EU's single currency for the first time next month

Euro prepares to take a bow

Preparing for Emu

European citizens should receive their first glimpse of the planned single currency next month – about five years before they will be able to spend it. If European monetary union goes according to plan, D-Marks and French francs will be among several currencies which will disappear early in 2002, to be replaced by the euro. Until then, and after Emu's scheduled start in 1999, the euro will exist only as an accounting unit for big transactions.

Putting the new currency into people's pockets, purses and wallets will be a huge task, with a huge volume of banknotes and coins to be produced. Germany alone has 2.5bn notes in circulation, and almost the same in storage. In the European Union as a whole, there are more than 12bn banknotes and 70bn coins, weighing 300,000 tons.

As yet, the euro has no official face. But the design process is well under way. Responsibility for banknotes lies with the European Monetary Institute (Emi), the embryonic European central bank, while a working party of governments and mints is co-ordinating coin design and production. The coins will be for 1, 2, 5, 10 and 50 cents and 1 and 2 euros. Each will have one common side and one "national" side.

Professional designers have been at work since February when the Emi began a competition which closed in September. The winning design is due to be chosen on December 3 at the next meeting of the Emi council on which the governors of the European Union's 15 central banks sit. The decision is likely to be announced later in the month, after the Dublin summit of EU leaders.

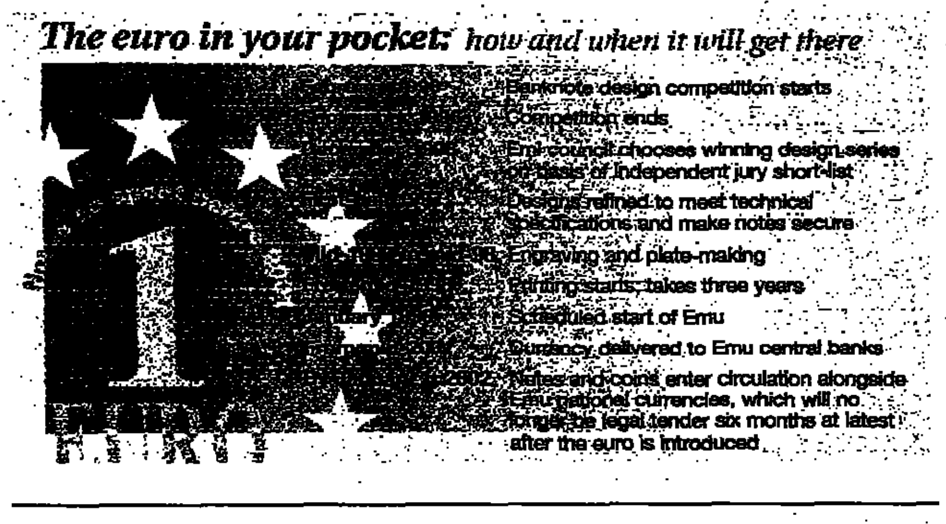
It is not only professional designers who have taken up the challenge. The Emi is exhibiting the work of German schoolchildren at its Frankfurt headquarters.

Teenagers from Class 8a of the Jestetten school near the Swiss border show few inhibitions about the single currency. One design for a 10 euro note says simply: "The way to the future."

Several pupils incorporate abstract motifs, while one has a peace dove and the initials of all 15 EU countries. What may not go down so well among those concerned about loss of sovereignty is the wording on one note next to a map of Europe – "Deutsche Eurobank".

While the professional designers may share some of the youngsters' enthusiasm, their task has been tough: to reconcile the desire for colourful, easily recognisable and forgery-proof banknotes with the need to present an image of Europe which is attractive and acceptable to most citizens, whether in or out of Emu.

The euro in your pocket: how and when it will get there



In the European Union as a whole, there are more than 12bn banknotes and 70bn coins

Their competition entries had to cover seven notes – 5, 10, 20, 50, 100, 200 and 500 euros – and be based on either of two themes: traditional or abstract/modern. The former covered stages of European cultural history: classical, romanesque, gothic, renaissance, baroque and rococo, the age of iron and glass architecture, and 20th century architecture.

Altogether, 44 design proposals were submitted, 27 in the traditional and 17 in the modern category. These were scrutinised by a committee of experts in graphic design, art history, public relations, marketing and symbol recognition to assess the designs' aesthetics, user-friendliness and ease of recognition by the blind.

They chose two shortlists of five for each category. Each design is known only by a number. So when the bankers make their choice, they will not know from which country the winning design comes. That will be made known later, when the details are released by the lawyer with whom they have been lodged.

The Emi council has had time to study the designs and consult governments. The real work will start once it selects the winning design series.

In the first half of next year, the chosen design will be adjusted to fit technical requirements. Security features will include a security thread, a watermark, special ink which changes colour according to angle of view and raised print (intaglio).

The notes' dimensions have been worked out with representatives of the blind. Each will be a slightly different size and have its own dominant colour: grey for 5 euros, red 10, blue 20, orange 50, green 100, yellow and brown 200 and purple 500.

The numbers will be bold, with raised marks for the partially sighted. The name of the currency, the signature of the president of the planned European central bank and its initials in the five variations (ECB, BCE, EZB, EKT and EKP) which fit the 11 Union languages will be the only text.

Still open is the question of whether space will be reserved for a small national feature, such as the monarch should the UK join. The notes will also carry the EU's 12-star emblem.

When the winning design has been refined, engraving and plate-making begins. That should take about a year, since there are few qualified engravers and the whole series will have to be done at once. Printing will start around mid-1998 and take about three years, using all current banknote-printing capacity in the European Union.

After summer 2001, the notes will be transported to Emu states' central bank vaults. They will be distributed around the end of that year – the timing will be decided in 1998 – with national currencies ceasing to be legal tender within six months of the euro's introduction. The D-Mark will lead several old-established currencies into oblivion.

Andrew Fisher

How to calculate the odds in the monetary union stakes

By Robert Chote, Economics Editor, in London

As the proposed starting date for Europe's single currency approaches, the financial markets are focusing ever more intently on the likely cast of participants.

Economic statistics, government forecasts and even the most innocent sounding comments from central bank officials are scrutinised for clues about who will be in and who will be out.

These in turn are having a growing influence on movements in bond and foreign exchange markets.

When, for example, a member of the Bundesbank council casts doubt on Italy's participation in a single currency, the interest rate the Rome government has to pay to borrow money from investors tends to rise further above the rate the Bonn government has to pay.

Looking at the way market interest rates converge and diverge across Europe provides information about the markets' confidence in the willingness and ability of particular countries to join the single currency.

The markets' expectation that a country will join after 1999 is expressed in the table as a percentage probability

In the weekly Preparing for Emu section of the Financial Times (the first of which appeared in the edition of November 12), we will be publishing an Emu Calculator, which provides a regular snapshot of the betting.

The markets' expectation that a country will join a single currency after 1999 is expressed in the table as a percentage probability.

Strictly speaking, the calculator measures the probability that a country will join Germany in a single currency, so Germany is given a probability of 100 per cent.

If another country receives a 100 per cent score, this would indicate that the markets are certain that the country will join. A score of 0 per cent indicates that it is thought to have no chance of joining.

A number of factors can affect these probabilities. Economic statistics and forecasts, for example, indicate how likely countries are to achieve the targets laid down in the Maastricht treaty for participants in Emu. These include objectives for inflation, interest rates and government finances.

But just as important can be the comments from central banks, governments and European institutions which indicate how strictly they believe these targets should be interpreted.

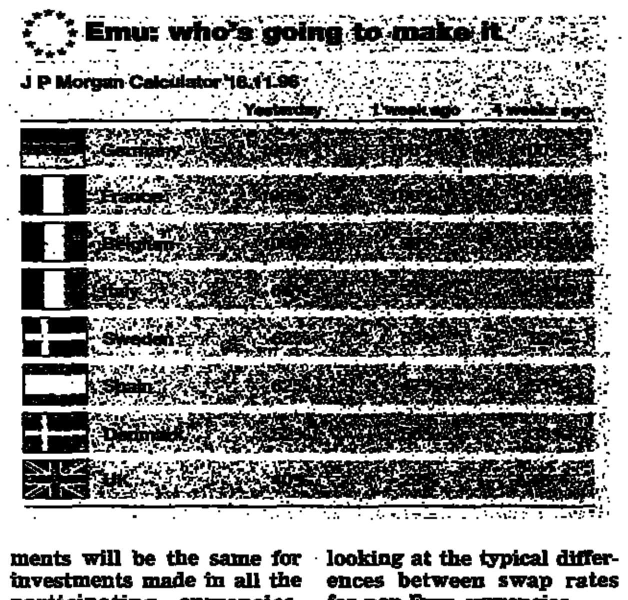
Currency strategists at investment bank J P Morgan calculate the probabilities which the markets place on a country joining the single currency from the interest rate swaps market.

Investors use this market when they are receiving interest payments on an investment at a floating rate, but would prefer payments at a fixed rate, or vice versa.

Following monetary union the "swap rate" which investors pay to switch from floating to fixed rate payments will be the same for investments made in all the participating currencies, because they will have been subsumed in the euro.

Emu: who's going to make it

J P Morgan Calculator 18.11.96



The probability which the markets place on France joining Germany in Emu can therefore be calculated by looking at the current difference between French franc and D-Mark swap rates, and comparing it to the difference which you would expect to see if Emu were postponed indefinitely. This can be estimated by looking at the typical differences between swap rates for non-Emu currencies.

The calculator is based on 10-year swap rates, which are the most widely traded swaps that mature after 1999.

By looking at movements in non-European swap rates, it also takes account of the fact that swap rates can converge or diverge for reasons that have nothing to do with expectations of Emu, such as a change in investors' appetite for risk.

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Sceptical Germans don't buy Emu

Public will take some persuading to part with the DM, finds **Andrew Fisher**

German politicians and bankers may be sounding clarion calls for the country to embrace the proposed single European currency, but the average citizen appears to be distinctly unenthusiastic.

On Friday night a party of pro-Emu persuaders went to the village of Glashütten in the Taunus hills near Frankfurt. Opinion polls show a majority of the population would rather not be part of European monetary union, so the speakers knew their audience would be sceptical.

Led by Mr Willi Görlach, a member of the European parliament, the group was organised by the Friedrich Ebert Stiftung, a political and cultural foundation close to the opposition Social Democratic party (SPD), which, like the rest of the German political establishment, is pro-Emu.

About 35 people turned up and most stayed nearly three hours.

The general tone was certainly not favourable to Emu. One elderly woman thought the single currency would mean an immediate loss – as with post-war currency reform. With DM1 currently worth around half an Ecu, the unit derived from the basket of European currencies, she took some convincing that this would not be the case. "We'll lose half our money," she insisted.

Mr Görlach explained that a move from D-Marks to euros would not mean a cut in purchasing power. The currency would just be in different units. "We will sacrifice the name [D-Mark], not the money."

Several questioners worried that the switch to the euro would lead to a rounding up of prices. Mrs Ruth-Anna Büttner, head of the legal department of the Hesse state consumer organisation, said this would have to be guarded against.

"You can't expect everyone to go around the shops with calculators comparing old and new prices when the euro arrives." She said it was not yet clear how long national currencies and the euro would co-exist once new coins and banknotes were in circulation from late 2001.

She also warned against unscrupulous companies trying to entice the unwary into worthless investments by telling horror tales about Emu.

Also worrying some people was the possibility that Germany's high social security standards would fall as a result of Emu. "No one believes other countries will come up to our standards. Ours will go down," said a questioner.

Mr Görlach replied that Germany would have to see that its standards were not eroded, but many remained sceptical.

French efforts to meet the criteria next year through one-off budgetary measures were the subject of one question. "Who is to guarantee they won't go in the other direction after Emu and run up more debt?"

Italy's financial record also came in for negative comment, despite its latest efforts to qualify for Emu. Some Germans are watching what happens across their borders very closely.

EUROPEAN NEWS DIGEST

Communist win in Stavropol

Russia's Communist opposition won the governorship of the southern Stavropol region in a regional election at the weekend. According to yesterday's official results Mr Alexander Chernogorov, the Communist candidate, won 55 per cent of the vote in a run-off against Mr Pyotr Marchenko, backed by the Kremlin, who got 40 per cent.

In a first round of voting in the south Siberian region of Altai, the communist-backed candidate Mr Alexander Surikov was in the lead with more than 46 per cent of votes, with Mr Lev Korshunov, the governor, winning 43 per cent.

● Mr Alexander Livshits, finance minister, will take over responsibility for Russia's foreign debt from Mr Oleg Davydov, minister of foreign economic relations. Mr Livshits will become head of the government commission on foreign debt and financial assets. *Reuter, Moscow*

Socialists may back Gaullist

France's opposition Socialist party yesterday urged its supporters in Dreux to vote on Sunday for the Gaullist government's candidate to keep the extreme rightwing National Front from capturing its first town in northern France.

In the first round of Dreux municipal elections last Sunday, the list led by Mrs Marie-France Stirbois, the National Front candidate, won 36.5 per cent of the vote, closely followed by Mr Gérard Hamel, the outgoing mayor, with 34.7 per cent. Mr Maurice Ravanne, the Socialist candidate, won 24.8 per cent, enough to contest the second round if he chooses but with the danger of handing the final election to Mrs Stirbois.

The National Front, which so far only controls three towns in southern France, has done well in Dreux, an industrial town west of Paris with a strong immigrant concentration, since the early 1980s.

"In the special circumstances of Dreux," the Socialist party's national spokesman yesterday appealed to Mr Ravanne "to withdraw to block the road to the National Front". *David Buchan, Paris*

World Bank looks to EU

Mr James Wolfensohn, president of the World Bank, yesterday called for a stronger partnership with the EU to co-finance development projects in the world's poorer regions. On his first official visit to Brussels, Mr Wolfensohn said the Bank and EU were jointly funding projects valued at $1bn in Africa, eastern Europe, and the Mediterranean. It was time to manage the business more aggressively.

Europe is contributing around 50 per cent of public sector finance for development aid, through the European Investment Bank, the European Commission and national governments as shareholders of the World Bank. Europe's share is becoming more important because the private sector is growing rapidly, to the point where today it is almost three times ($170bn) the total from official sources ($55bn).

Mr Wolfensohn, in talks with President Jacques Santer yesterday, raised the question of the EU taking part in the debt relief plan for the world's poorest countries and progress on Bosnia reconstruction. *Lionel Barber, Brussels*

OECD warns Poles on prices

Poland must tighten fiscal and monetary policies if it is to achieve its target of reducing the rate of inflation to 13 per cent by the end of 1997 and to below 10 per cent by the end of 1998, according to a report by the Organisation for Economic Co-operation and Development.

High inflation persists with an annual rate of around 20 per cent in mid-1996, but it is expected to fall close to the target of 17 per cent by December, says the report. The rate of economic growth may have peaked in the first half of 1996, when gross domestic product was rising at an estimated 7.3 per cent on a 12-month basis, says the OECD. It forecasts economic growth of around 5.5 per cent in 1996 and suggests an expansion of around 5 per cent in 1997 following increases of 7 per cent in 1995 and 5.2 per cent in 1994. Unemployment is forecast to fall only marginally from 14 per cent this year to 13 per cent by the end of 1997.

"The challenge now is to sustain vigorous growth and move closer to financial stability with a view to converging over time with western Europe," says the report. The OECD claims that restructuring in many state-owned enterprises is "insufficiently advanced." It warned of the difficulty of pushing through some important structural reforms at a time of buoyant growth. *Kevin Done, East Europe Correspondent*

ECONOMIC WATCH

Germans see 'poor' profits

One in three companies in the German metal manufacturing industry is unprofitable, according to a study by the Ifo economic institute released in Cologne by Gesamtmetall, which represents industry employers.

In addition, of the 926 companies surveyed, 57 per cent said their profitability was "poor". Mr Martin Leutz of Gesamtmetall said poor meant the company did not expect to report a profit for 1996 or expected a profit below expectations. *AFX, Cologne*

■ Italian producer prices rose 0.2 per cent in September from August and 0.2 per cent from a year earlier, the statistics office ISTAT said. Wholesale prices rose 0.4 per cent from August and 1.3 per cent from a year earlier.

■ Finnish producer prices rose 0.3 per cent in October from September but fell 1.7 per cent from a year earlier, the central statistical office said. Wholesale prices rose 0.7 per cent on the month and were up 1.2 per cent on the year. Export prices were up 0.3 per cent from September but down 3.7 per cent from October 1995. Import prices rose 0.6 per cent from September and 3.3 per cent from a year earlier.

NEWS: EUROPE

Hints of gold in France's dull investment scene

There is more in the latest survey of industrial opinion than meets the eye, writes David Owen

"Now is the time for entrepreneurs and households to invest," Mr Jean-Claude Trichet, the Bank of France governor, said in September, asserting that French short-term interest rates were at their lowest level for "half a century".

Yesterday's industrial investment survey by Insee, the national statistics office, indicates that French companies may, to a degree, be starting to pay attention.

At first glance, yesterday's figures appeared disappointing. French industrialists said they expected the value of their productive investments, mainly equipment, to rise by 4 per cent in 1996, against expectations of 9 per cent in the last such Insee survey, published in April.

But that 9 per cent projection has borne little relation to what has actually happened this year. In fact, investment by non-financial enterprises in buildings, public works and manufactured products in the second quarter fell by 1.5 per cent. Insee recently predicted the increase in new investments would be just 0.4 per cent for the year as a whole.

These last two figures cover a much broader range of investments than yesterday's survey. Nonetheless, the conclusion of most observers is that industrialists decided earlier in the year to postpone a large proportion of planned investments. The disappointing level of investment actually undertaken is, in turn, one reason why French growth in the first half was more anaemic than originally expected, with the economy shrinking by 0.4 per cent in the second quarter.

But it is in the context of this disappointing first-half investment performance that some economists were interpreting yesterday's survey in a reasonably positive light.

A 4 per cent increase in productive investment for the year as a whole would, they said, imply a healthy second-half upturn, given actual investment levels in the first six months. Furthermore, there are strong grounds for expecting that industrialists' October assessment will be more reliable than the over-optimistic figure published in April, simply because we are now so much closer to the end of the year.

For 1997, yesterday's survey indicated that industrialists expected productive investment to rise by a still not particularly strong 2 per cent by value. Over 20 years, however, Insee has observed a marked propensity for industrialists to underestimate the level of the following year's investments in its October survey. Corrected for this bias, the agency indicated, the projected increase would be a more robust 7 per cent. It warned, nevertheless, that 1997 projections were "fragile at this stage".

Recent portents for investment based on trends in the real economy have, meanwhile, been mixed. On the positive side, there appears to have been an encouraging upturn in demand. Yesterday's monthly business survey by the Bank of France said that, in October, industrial activity increased "in all sectors".

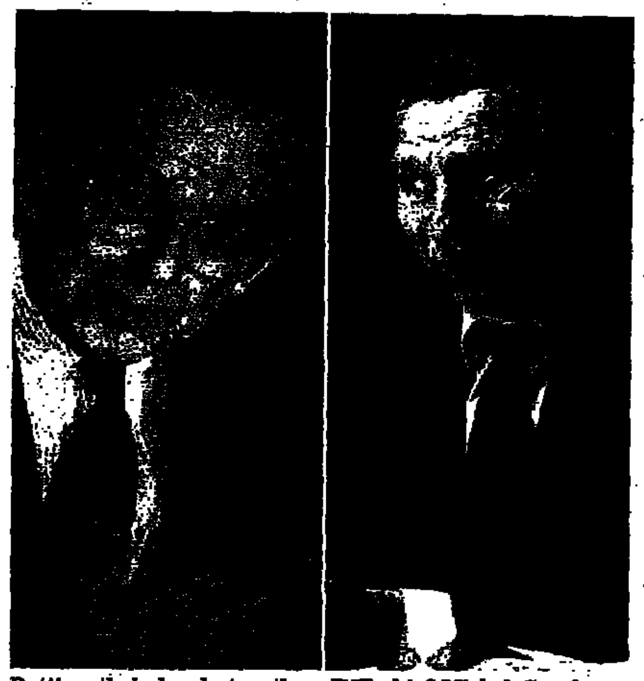
On the domestic market, the bank said, final demand was stimulated by "larger flows of orders in connection with the end of year holiday season". Export demand was also firmer, thanks to the buoyancy of the US and Asian markets and an easing of competition from Italy and Spain linked to an appreciation of their currencies.

The low level of interest rates is increasingly viewed – and not just by Mr Trichet – as another positive factor. But inventories are still judged to be too high in most sectors, in spite of the sharp reduction in stocks in the first half of the year. Furthermore, the capacity utilisation rate – at about 83 per cent – is still well below the sort of level likely to convince managers that they need to build new plant, although a slight increase was registered in both September and October.

On balance, yesterday's figures were held to suggest that better news on investment is indeed in prospect after the disappointments of the year so far. According to Mr Eric Chaney, senior economist with Morgan Stanley in Paris, the Insee survey was "consistent with a moderate recovery script, starting as soon as the second half of 1996 and expanding in 1997".

This would come as a relief to the government, which is counting on growth rising from 1.3 per cent this year to 2.3 per cent next year to help it cut its overall public deficit to 3 per cent – the level needed to qualify for European economic and monetary union.

But many think that a much more pronounced upturn in investment levels is necessary to make good the shortfall of recent years. Says Mr Chaney: "Double digit growth rates would be needed, in my view, in order to repair the damage of five years of sluggish investment growth."



Putting their heads together: IMF chief Michel Camdessus (left) and President Leonid Kuchma have discussed reforms

Ukraine gains some leeway, but at a price

By Matthew Kaminski in Kiev

The Ukrainian government has won approval from the International Monetary Fund to run a higher budget deficit next year if it can persuade parliament to swallow a deregulation and tax cuts package to stimulate growth.

Ukraine will ask western donors next month for an extra $1bn in loans to back the plan, which Ukrainian officials claim as a breakthrough in the country's hesitant transition to a market economy.

If it can raise that funding and push the deregulation and tax package though parliament, the IMF can approve a three-year $3.1bn loan early next year.

"The strategy carries some of the greatest hope for real reform," Mr Victor Yushchenko, the central bank governor, said in an interview yesterday. "I might even call it a small revolution." However, western officials have voiced scepticism about whether the government can muster sufficient political support to carry the package through parliament.

Mr Michel Camdessus, the IMF executive director, last week discussed the proposed reforms with Ukraine's president, Mr Leonid Kuchma. The US treasury gave its support, western officials said.

The most important change centres on the 1997 fiscal deficit, which will be allowed to grow to 4 per cent of gross domestic product rather than 2.3 per cent, as previously agreed with the Fund. The aim is to create conditions for growth in a low savings, high interest rate economy.

Mr Yushchenko said Ukraine would draw up a deregulatory package, affecting about 97 laws, in the run-up to a meeting in Washington next month of Ukraine's donor countries. This would include making business registration simpler and closing tax loopholes. Serious spending cuts, he added, would be put off until next year.

Investors welcomed the measures. "It's more realistic for the IMF to accept a lower budget deficit," said Mr Andrew Leasor, who runs the $50m Ukraine Growth Fund at Regent Pacific.

The new conditions placed on IMF support are likely to delay approval of the $3.1m "extended fund facility" loan from January until February or March.

Mr Yushchenko said the domestic debt market could be another revenue source, but western officials believe the net $2.8bn figured in next year's budget may already be too ambitious.

The central bank chairman added that a planned eurobond could bring in $200m in the first half of next year. Some western investment banks have urged Ukraine to consider a bigger issue.

Mr Yushchenko said the country's reserve position had recently strengthened to nearly $3bn, which means Ukraine could manage without temporary IMF support, but could not afford a lengthy delay.

A western official said this pressure could help overcome the formidable political opposition in both the cabinet and parliament to the proposed reforms.

UK may seek to reopen Nazi loot treaty

By William Hall in Bern

The British government has begun moves which could lead to fresh talks on the 1946 Washington Agreement, under which the Allies waived all future claims on looted Nazi gold held in Switzerland in return for payment of SFr250m.

Mr Greville Janner, the British Labour MP who chairs the Holocaust Trust, said yesterday that Mr Malcolm Rifkind, the foreign secretary, had begun consultations with the US and France over the 1946 agreement.

Mr Rifkind had told him he had not excluded "the option of amending" the treaty which many believe allowed Switzerland to keep most of the looted gold deposited there by Nazis during the second world war.

Mr Janner raised the issue yesterday with Mr Flavio Cotti, the Swiss foreign minister, who insisted there was no point discussing the treaty until the full facts of the Swiss government's own investigation into the events were known.

The British MP said many victims could have died by the time the results of that inquiry were known in five years. If the Swiss government was not going to renegotiate the 1946 agreement, it was important for it and the country's banks to make "a speedy" financial gesture to show they were serious.

Mr Georg Krayer, chairman of the Swiss Bankers Association, told Mr Janner and Mr David Hunt, the former Tory cabinet minister, he would call a meeting of Swiss banks to discuss the matter.

The news that Mr Rifkind is looking into the possibility of reopening the 1946 agreement will increase pressure on the Swiss to back up their official investigation with a sizeable financial settlement.

Mr Hunt said that it was not unusual for countries to renegotiate old treaties and instanced the number of changes to the Treaty of Rome.

Country's military strategists seek world-wide defence role alongside US and United Nations

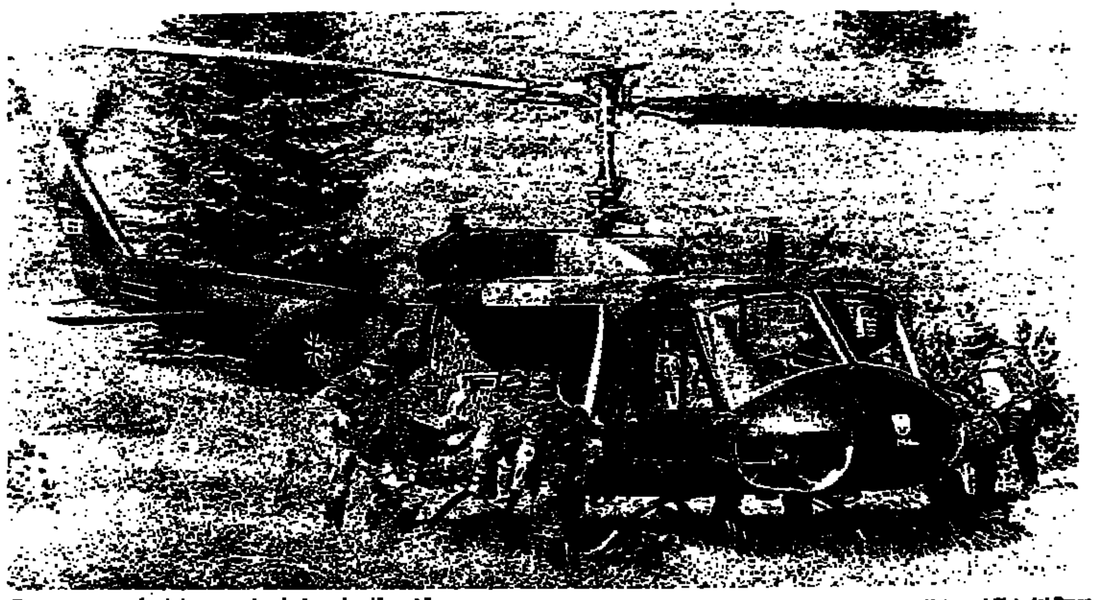
German troops prepare for mission in Bosnia

As German troops began training yesterday for a mission in the heart of Bosnia's former combat zone, a soldier-politician who recently doffed his general's uniform for a senior government job in Berlin is looking on with quiet satisfaction.

Mr Jörg Schönbohm, the man who oversaw the East German military's incorporation into the federal defence forces, believes strongly the future of his country's army lies in peacekeeping missions outside the territory of Germany and its allies.

"I have told my son, who's an army doctor in his 20s, that he can expect to participate in missions a long way from Germany," says the politician, who has often argued that his reunited country must define its own interests more clearly.

In a world where Germany faces no immediate threat to its territorial integrity, a growing school of German defence analysts expects an increasing share of the country's military resources to be devoted to "out-of-area" missions, authorised by a UN Security Council where Germany would have a permanent seat. They regret that Germany was unable to take part in the Gulf war or in the US peacekeeping effort in Haiti, and believe Germany should be ready to take part in UN-authorised missions as far afield as Latin America and the Asia-Pacific.



German combat troops training in the Alps

Universal Pictorial Press

"In the Gulf war, Germany paid a lot of money to its allies, but enjoyed no influence," says Mr Holger Mey, a conservative writer on defence.

In the short term a budget squeeze has forced Germany to abandon some of the arms spending projects which would give it a real capacity to project power far beyond its shores. The defence ministry has shelved plans to build a multi-purpose ship which could serve as the nucleus of a blue-water navy. Prospects for a strategic transporter known as the Future Large Aircraft have also been clouded by budget constraints in both France and Germany.

Questions remain about how widespread is the political will to deploy German troops in areas where Bonn has no special interest. Chancellor Helmu Kohl has ruled out sending German soldiers to Zaire on grounds that the former colonial powers should take the lead.

But German strategists of the Schönbohm school believe helping the US with long-distance peacekeeping is one way to ensure Germany and western Europe continue to be attractive partners for Washington.

This theory is one answer to the question all German thinkers about defence are asking themselves: how and on what terms can the vital but also fragile security relationship with the US be maintained?

In practice, observers say, German-US defence relations have been built on a bargain which differs considerably from Mr Schönbohm's vision. If Washington and Bonn have established a good understanding on European defence issues, it is precisely because both countries see the security of central Europe – especially the countries which aspire to join Nato – as an overwhelming priority.

A French diplomat puts it this way: "The Americans always suspect us of wanting to use Nato equipment for expeditionary forces far from Europe. With the Germans, the Americans have no such worries, because both countries understand that European security is the top priority."

Yet another view of how to maintain transatlantic relations is offered by Mr Karl Lamers, the leading Christian Democratic politician, who has influential but somewhat maverick ideas about European security. He believes US and European interests may diverge quite considerably within the European continent, but the US and Europe can find a common purpose acting out of area.

"The US-European partnership only has a future if it operates in global affairs," says Mr Lamers, whose mistrust of Washington's long-term intentions has earned him the nickname of Germany's leading Gaullist. While Mr Schönbohm sees Germany's role in out-of-area missions as a guarantee of the US commitment to Europe, Mr Lamers sees US-European co-operation in remote troublespots as a desirable end in itself – and he is not so convinced the transatlantic partnership will work successfully inside Europe.

"Nobody can be against the US engagement in Europe, including its security – but the US role should be in the background, not in the front line."

Whatever the nuances, Germany's proposed deployment in Bosnia, which will include reconnaissance tanks and armoured personnel carriers, enjoys wide consensus. It represents the culmination of a painstaking effort by the defence establishment to show that Germany, whose role in ex-Yugoslavia has been concentrated on logistical and medical support for Nato, can be a full-blooded participant in peacekeeping.

In a country hitherto shy of discussing its own defence identity, the defence debate has now begun in earnest.

Bruce Clark

The US yesterday confirmed its intention to deploy troops in Bosnia for at least another 18 months. At a Nato ambassadors' meeting in Brussels, the US laid out its proposal for a mission to Bosnia that would gradually scale down its numbers and tasks from late 1997.

Diplomats said some of Washington's European allies were surprised by the US decision to keep troops in Bosnia for as long as 18 months.

European Nato members, who in most cases had agreed to a year's extension of the Nato presence, were considering whether they had the resources to stay in Bosnia as long as 18 months.

The US side argued that next year's Nato mission should have very clear restrictions on the scope of its work so as to avoid "mission creep".

Belarus PM threatens to resign

By Matthew Kaminski in Kiev

Mr Mikhail Chigir, the Belarus prime minister, yesterday threatened to resign if President Alexander Lukashenko did not cancel next Sunday's referendum on extending his presidential powers.

Mr Lukashenko was last night reported by a Moscow television station to have accepted the resignation. He had told a rally earlier in the day: "Nobody is irreplaceable, be they milkmaids or factory workers. One can always find functionaries, including a prime minister."

Mr Lukashenko is pressing ahead with the referendum, in defiance of parliament, the higher courts and the electoral commission. His draft constitution, if passed, would extend his term in office and give him complete control over most branches of government.

The prime minister's move broadened the opposition to Mr Lukashenko's plans for stronger rule and marked the first time a senior government official had come out publicly against him.

Mr Chigir submitted a letter to the presidential administration, Interfax news agency reported yesterday. He also met parliamentary leaders, who claim the referendum violates the constitution.

Mr Gennadz Karpenko, the deputy speaker of parliament, said Mr Chigir "set the president economic and political conditions, including cancelling the referendum".

Mr Lukashenko responded by attacking parliament for trying to split his cabinet and threatened "appropriate measures", which some deputies feared might mean a violent dissolution.

Parliament yesterday held an emergency session to discuss the crisis, but did not debate a motion to impeach the president, as some deputies had threatened. An estimated 1,000 protesters rallied outside in support.

Police barred the entrance to the building and other security forces were stationed nearby, but the protests were not violent and parliament remained open.

At a rally in Gomel, Mr Lukashenko yesterday criticised Mr Chigir for disloyalty, suggesting a coup was being orchestrated by radical nationalists and the west. "Rightwing forces have already shaped a shadow government and are planning to bring it to power next May," he said.

Parliament and the courts have ruled the referendum should be "consultative", but Mr Lukashenko said he would ignore them, and last week sacked the country's highest electoral official who had called the poll "a piece of legal idiocy".

The president's referendum campaign has benefited from his monopoly control of television and radio. On Sunday the government said the Russian television network NTV, the only independent source of information in Belarus, might be taken off the air for "intentionally false reporting".

The Kremlin has increasingly come under attack from liberals in Moscow for backing Mr Lukashenko, who has made reunion with Russia a priority.

Second poll for Moldova

By Matthew Kaminski

Moldova's President Mircea Snegur faces a tough re-election battle in two weeks' time after gaining 39 per cent of the votes in Sunday's first round, according to final results released yesterday.

The incumbent will face Mr Petru Lucinschi, the speaker of parliament and runner-up. The president fell short during Sunday's poll of the necessary majority needed to stay in office.

Mr Lucinschi, former head of Moldova's Communist party, surprised some observers with 28 per cent – much better than Mr Andrei Sangheli, the current prime minister.

Although Mr Snegur touched a nerve with a campaign emphasising nationalist themes in the Romanian-speaking country, Mr Lucinschi looks better placed for the run-off.

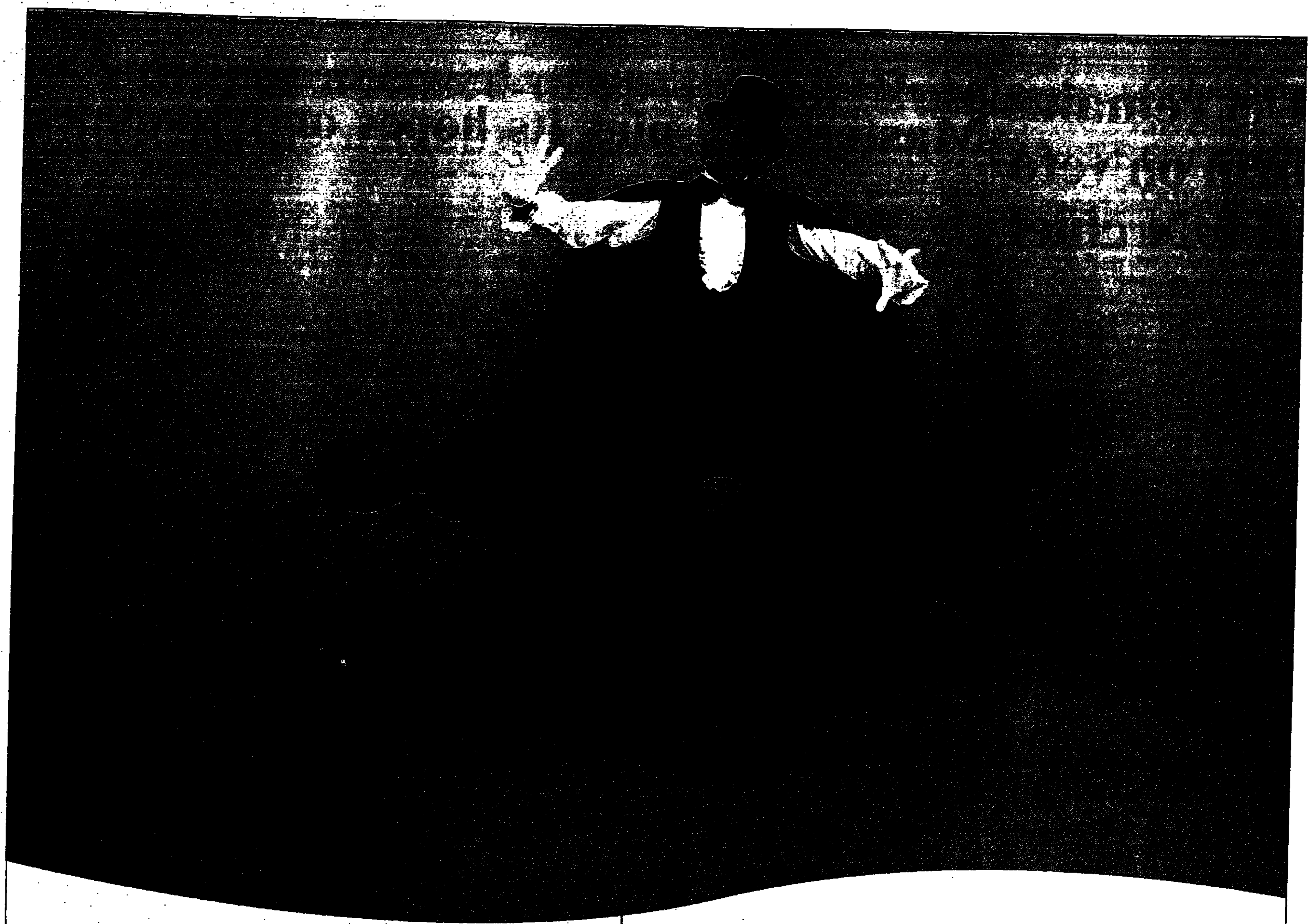
He has sought to tap frustration with the poor state of the economy in the mainly agricultural country of 4.3m people between Romania and Ukraine.

Radical economic reforms last year brought down inflation and stabilised the currency, but no real growth is expected until next year.

Mr Lucinschi's aides yesterday expressed hope that Mr Sangheli and Mr Vladimir Voronin, the Communist party candidate who came third, would back the parliamentary speaker as part of a left-centre coalition.

The challenger has made a priority good relations with Russia, Moldova's leading trade partner and energy supplier, and promised an end to the dispute with Slav separatists in the Trans-Dnestr region.

But Mr Snegur has proved a political survivor. Pragmatic on the language question when in office, the incumbent's campaign took a populist tone, stressing Moldova's cultural and historic links with Romania, although he has stopped short of endorsing some nationalists' demands for reunion with Bucharest.



US remains firm on veto of UN chief

By Michael Littlejohns, UN Correspondent, in New York

The US last night reaffirmed its determination to block the reappointment of Mr Boutros Boutros Ghali as secretary general of the United Nations.

Ms Madeleine Albright, the US delegate, went into a closed-door meeting of the Security Council with written instructions from Mr Warren Christopher, the secretary of state, to veto a resolution to re-elect the incumbent for another term, Mr James Rubin, Ms Albright's senior adviser, said.

Ms Sylvana Foa, the UN spokeswoman, responded with a brief statement that "the secretary general has no intention of withdrawing." The nomination of a secretary general is made at a private meeting of the council, for subsequent confirmation by the 184-member General Assembly.

Egypt, Botswana and Guinea-Bissau, with China's support, proposed a resolution to re-appoint Mr Boutros Ghali.

With the US veto ready to be implemented, a senior American official told reporters: "We have an opportunity now to seriously consider alternatives. The door is now open."

However, many diplomats said an early decision was unlikely. There is a widespread feeling in delegations that the new secretary general – who will take office on January 1 – should be African, because representatives of other geographic regions that have held the post were given two terms. Mr Boutros Ghali is the first to be denied this privilege.

Officials confirmed last night that Mr Christopher offered him a one-year extension last spring, which he declined. "We tried very, very hard to avoid a confrontation," a US delegate said, adding that it was not a happy day for the US that things had come to the point of veto.

Defying US intentions, Mr Boutros Ghali – who turned 74 last week – announced his decision to stand for another five-year term when he was informed in Geneva last June of a Washington news leak of the meeting with Mr Christopher.

Ms Albright said later that the incumbent had lost the confidence of the US and an American official repeated this last night, adding that the UN should understand that his re-election "would make it virtually impossible for us to obtain the hundreds of millions of dollars we need to pay back to the UN."

It was important to give the UN a "second chance" with a hostile Congress, which must appropriate the funds. The US owes over $1bn and the UN's total arrears from all sources now stand at about $2.5bn.

Although Mr Boutros Ghali's relationship with the UN in the past five years has been marked by sporadic acrimony and what many believe was a misreading on his part of US policy and the American system, officials have all along insisted there was no personal rancour.

Now, the US simply wanted a new leader to guide the UN into the 21st century and carry the tough reforms of the bureaucracy on which Washington and some other prominent members are insisting.

Who that leader may be is the subject of intense speculation. Mr Kofi Annan, a Ghanaian, who heads the peace-keeping department, is one of those most frequently mentioned. In the last few days, Mrs Graca Machel, widow of the first president of Mozambique, has been hinted at but less seriously.

France threatens to veto any candidate who does not have a good command of the French language, which is supposed to have parity with English at the UN. In practice, French has been superseded to a great extent, at least at the New York headquarters, and Paris is determined to redress this trend.

Card consortium to adapt smart card technology in worldwide battle with its rival Visa

MasterCard pins its hopes on Mondex

By George Graham, Banking Correspondent

MasterCard yesterday pinned its hopes on the Mondex smart card in its battle to displace Visa as the world's largest card payments organisation.

MasterCard, which announced yesterday it had acquired 51 per cent of the Mondex partnership, said Mondex could "become the single *de facto* global standard for chip payments products."

The Mondex smart card was originally developed as an electronic purse – which can be preloaded with money like a telephone card. But MasterCard plans to use the Mondex computer chip technology for all its cards, not just as an electronic purse.

Mr Eugene Lockhart, president and chief executive of MasterCard International, said the Mondex chip would be loaded on MasterCard's credit cards, its Maestro online debit cards and its Cirrus cash machine cards, as well as being used for other functions such as loyalty programmes.

"We are not just buying an electronic purse, we are buying a whole chip platform," he said.

Datamonitor, the market research organisation, said yesterday that it expected the number of smart cards to soar from 688m in 1995 – three quarters of them telephone cards – to 3.5bn in 2001. The number of bank smart cards is expected to rise from 30m to 450m.

Mondex, which was originally developed by the UK's National Westminster Bank and has been on trial in Swindon since last year, has mostly been viewed as a stored value card.

It can be loaded with money from a cash machine or over a telephone, and used as a substitute for cash in small payments. A credit or debit card would be too slow and expensive for these transactions, because of the need to obtain authorisation for each payment.

Mondex is a much closer replica of cash than competing cards such as Visa Cash. Money can actually be transferred from card to card, instead of only to a retailer with a full-sized terminal.

But that means it leaves less of an audit trail than the Visa electronic purse, which keeps a central archive of all transactions.

MasterCard wants to adapt Mondex so that an audit trail will be kept for all transactions above a certain value. That value will be set by regulators in each country.

The Mondex chip is capable of carrying up to five different currencies in separate "electronic pockets"; Mr Lockhart said that meant it could be structured to carry local stored value programmes which have already started up in different countries.

That could improve acceptance for Mondex in continental Europe, where banks have already committed themselves to their own national electronic purse schemes, such as Portugal's PMB card or Belgium's Quick.

Because Mondex money can also be transferred down a telephone line, Mr Lockhart hopes the card can be used for payments over the Internet.

Although many observers have rated Mondex highly for technical achievement, some feared it could suffer the same fate as Betamax videotapes – technologically superior, but destined never to become the industry standard.

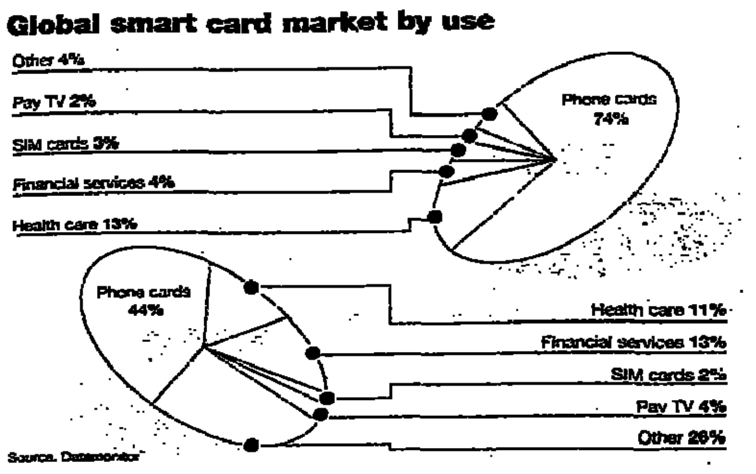
"Mondex was originally launched with aspirations of becoming a third international brand alongside Visa and MasterCard, and I think that was always going to be beyond them," said Professor Steve Worthington, a specialist in payment cards at Staffordshire University.

Standardisation is crucial, because shops and restaurants do not want to have to install different terminals to handle each competing electronic purse.

Mondex is not fully compliant with the standards developed jointly by the Europay, MasterCard and Visa (EMV) card organisations, although Mondex officials say they have demonstrated that their card will work in EMV terminals.

But Mr Lockhart said yesterday's agreement stipulated that Mondex should be changed to comply fully with the EMV standards.

"What wins is a cost-effective solution that has excellent distribution and excellent acceptance."



A young Rwandan Hutu refugee girl carries her bed towards the border town of Goma yesterday Reuter

Second exodus could halt intervention

By our Foreign Staff in London

Tutsi rebels controlling eastern Zaire may be preparing for a second mass return of refugees to Rwanda, raising further doubts about the need for the planned multinational military intervention force.

A spokesman for the United Nations High Commissioner for Refugees in Geneva said the rebels told UN agencies that a corridor from Bukavu, south of Lake Kivu, to Rwanda's south-western Cyangugu border crossing could be opened today to encourage the refugees in Zaire's south Kivu province to return to Rwanda.

More than 500,000 Rwandan Hutu refugees returned home from Goma at the weekend after the Tutsi rebels shelled Mugunga camp and forced extremist Hutu militiamen to flee.

The news of the rebels' proposal coincided with an announcement that a meeting in Germany of countries participating in a Canadian-led force to help refugees in Zaire had been rescheduled to Thursday, a day later than originally planned. This reinforced speculation that some contributing countries are having second thoughts.

Eritrea yesterday said the force was at best no longer necessary, at worst ill-conceived, adding that it was withdrawing an earlier commitment to take part. In a statement faxed to Reuters in Nairobi, the foreign ministry said the wishes of regional leaders had been ignored.

However, Mr Michael Portillo, Britain's defence minister, said it was too early to make a firm decision about whether to call off the operation.

"There are still hundreds of thousands of refugees unaccounted for, including most of those in the southern region around the town of Bukavu where the British are likely to deploy to," he said.

■ Switzerland has turned down a visa request from President Mobutu Sese Seko, Zaire's ailing ruler, who is in France and wants to return to the country for treatment, a foreign ministry spokesman said yesterday.

Amnesty urges Algiers to disband militias

By Roula Khalaf in London

Civilian self-defence militias, backed by the Algerian government, are exacerbating the state of lawlessness in the country and drawing the population deeper into the five-year confrontation between security forces and armed Islamic groups, according to Amnesty International.

In a report to be published today, the London-based human rights organisation calls on the Algerian government to disband the militias, originally created to defend the population against attacks by Islamic groups, but now involved in arbitrary killings of people they define as "terrorists."

At a time when the Algerian government repeatedly states that the security situation has become "quasi-normal" and that violence has reached a "residual" level, Amnesty describes a hidden reality in which killings and death threats by armed groups and extrajudicial executions and torture by government forces have become part of daily life.

Some western diplomats in Algiers say at least 100 people are killed every week and opposition leaders put the figure at several times that figure.

But the Algerian regime has grown increasingly confident of its ability to reduce attacks to a level it can live with, in large part because the nature of the violence has changed over the last two years.

It was first concentrated in clashes between armed groups and security forces and targeted attacks on foreigners, intellectuals and others believed to support the Algerian regime. But it has gradually drawn ordinary civilians into the conflict.

For instance, Algerian businessmen say they are now better able to distribute their goods throughout the country without facing attacks by armed groups. However, ordinary civilians in villages and in towns, especially in greater Algiers, live in constant fear for their lives.

The armed groups have been lashing out at civilians with bomb attacks and massacres of families. This is partly out of desperation, but also to punish a population encouraged by the government to take the law into its own hands.

In the last month massacres of women and children have multiplied, where victims in many cases are families of men involved in self-defence groups.

At the same time, in the name of the "anti-terrorist" fight, Amnesty said security forces had led "an increasingly deeply rooted pattern of deliberate physical elimination of individuals and groups of individuals by the security services".

Since 1993, thousands have been executed, arrested or tortured. This was either because they were suspected of having links with armed groups or of supporting or failing to denounce "terrorists", or in retaliation for attacks committed by the armed groups.

Members of self-defence groups and security agents in Algeria say "terrorists" are almost never captured alive. Meanwhile, many families of people who voted for the Islamic Salvation Front (FIS), the party which was poised to win the second round of the 1992 general elections cancelled by the Algerian army, have yet to hear word of their "disappeared" relatives. They are believed to have been arrested by the military security, gendarmerie and police.

As armed Islamic groups become more fragmented, and abuses by security forces continue, Algerians no longer understand why and by whom they are attacked.

The government admits that some of what is referred to today as terrorism is banditry, with small groups of youths using the prevailing fear and chaos for extortion and settling scores.

Economy develops a taste for reforms

But Algerians still face problems in shaking off bureaucratic influence, reports Roula Khalaf

Algerians like their sugar. They consume 700,000 tonnes a year – between 25 and 28 kilos each – and import much of their needs.

But more than two years after Algeria embarked on economic reforms, promising that liberalisation of trade would end shortages and lower prices, sugar became scarce last month and prices more than doubled.

The army-backed government holds up the sugar crisis as a symbol of the success of its liberalisation policies, as prescribed by the International Monetary Fund. But critics see it as an indication of the obstacles to reforming the Algerian economy.

Government officials say that, in striving to end public sector enterprises' reliance on the treasury, the state banks refused to provide hard currency to the state sugar importer because the company was insolvent. This prevented the state company – which, despite trade liberalisation, had kept up to 80 per cent market share – from importing sugar.

"This expresses the rigour and discipline we have chosen in implementing reforms," declares Mr Abdelkrim Harchaoui, the finance minister.

But where was the private sector? According to officials in the industry, the sugar shortage was at first averted because at least three private sector companies started importing sugar in the last year.

When the state company's imports were blocked by the banks, one private sector company rapidly increased its imports and its market share rose to almost 70 per cent. But the fact that the private sector could fill the void threatened to put the state importer out of business for good.

Sugar industry officials say this is when pressure was put on the state banks to cut financing also to the main private importer, even though it was in sound financial health. With neither the public nor private sector importing enough sugar, the shortage occurred and prices soared.

No one is certain where the pressure came from, but Algeria's import monopolies are believed to have powerful political interests behind them. By the middle of October, the state sugar enterprise was able to resume imports and credit to the private sector company was later unblocked.

Representatives of Algeria's private sector maintain that political interests will continue to meddle with attempts at economic reform as long as banking remains in the hands of the state. Only when credit is provided on the basis of a company's profitability instead of its connections can the state's hold on trade be broken and the private sector be ensured of transparency in transactions.

But the continuing violence in Algeria and potential investors' inability to foresee where the country will be in the long run have so far deterred large-scale investment in banking, as in other sectors. A single fully fledged private bank, Union Bank, has emerged since reforms were launched in 1994.

Mr Harchaoui says that last year

Sugar became scarce and prices doubled despite promises that trade liberalisation would end shortages

5,500 private operators entered the import-export trade, compared with 1,600 existing public companies. But many of the new private sector entrants are small businessmen looking for a quick profit, while public companies continue to account for the largest slice of basic food imports.

Efficient liberalisation is only one of many challenges facing the government. Economic reforms started in 1994 have now reached a critical stage, where changing laws and issuing new decrees cannot, on their own, move the economy forward nor shake off a public sector responsible for more than 60 per cent of production.

Higher oil prices this year have given the government some breathing space – oil and gas exports provide 97 per cent of the country's foreign exchange reserves. This plus nearly five years of violence and the need to maintain public support for a controversial political programme have raised concerns in the private sector that the government may be forced to stall on reforms.

At the end of this month, Algerians will vote on a constitutional amendment that limits the powers of the national assembly and increases those of the president. Legislative and local elections are due next year.

But as of the end of 1996, under the reforms agreed with multilateral agencies, the state sector will no longer be subsidised by the treasury – which means hundreds of thousands of workers are gradually to be laid off. Some 2m, or about 25 per cent of the workforce, are already out of work.

Government officials insist politics will not dent their resolve.

Privatisation has become the buzzword in Algiers. But where will the money come from?

Nearly five years into the bloody conflict between security forces and Islamic militants, some local businessmen are showing interest in investing in industry. But most lack the funds required to replace obsolete equipment, upgrade technology and bring in expertise. Money siphoned out of the country could theoretically come back but a fiscal amnesty would be controversial.

The World Bank, figuring that under current economic and security conditions Algeria is unlikely to attract the needed large-scale foreign strategic investment, recently suggested that a more realistic course was privatisation through the voucher system.

But top Algerian officials appear in disagreement over the merits of such privatisation. Some say it will be used in privatising small companies; others are appalled at the suggestion Algerian state assets should be given away to the public on the cheap.

The government on the whole disagrees with the bank's prediction that it will be difficult to attract foreign investment and officials appear convinced security does not represent an impediment to investing.

The last two months have seen a resurgence of violence in Algeria, first with bomb explosions and attacks on civilian buses, then with reports of civilian massacres. But in a meeting with foreign journalists in late October, Mr Ahmed Ouyahia, the prime minister, described the security situation as "quasi normal" and said it hardly differed from terrorism experienced in other countries, citing Spain as an example.

INTERNATIONAL NEWS DIGEST

UK inquiry into Hutu guns

The UK Foreign Office is to examine whether a UN embargo on arms sales to Rwanda was broken by an Isle of Man company which supplied weapons and ammunition to Rwandan Hutus based in Zaire.

This follows the discovery in eastern Zaire of documents revealing that the company, thought to be called Mil-Tec Ltd, allegedly organised the supply of arms from Israel and Albania in 1994 at a time when hundreds of thousands were being killed.

The foreign office said there was no immediate indication of any violation of the embargo since the destination was in Zaire. However, the matter would be investigated. *John Mason, London*

US acts on encryption

The US government has stepped up its drive at the Organisation for Economic Co-operation and Development (OECD) to promote the use, and prevent the misuse, of encryption technology used to protect electronic communications and commerce.

The Clinton administration has named Mr David Aaron, its ambassador to the OECD to be its "special envoy for cryptography". Mr Aaron said his mission would be to encourage OECD member governments, and non-members with a significant software industry like South Africa, Argentina and India, to combine liberalisation of encryption exports with safeguards against them falling into the hands of organised crime or international terrorists. *David Buchan, Paris*

High turnout in Zambia poll

Zambians voted peacefully yesterday in the first elections since President Frederick Chiluba ousted the one party state of Mr Kenneth Kaunda in 1991. Widespread fears of unrest ahead of the combined presidential and parliamentary elections appeared unfounded.

Preliminary reports of a relatively high turnout indicated that supporters of Mr Kaunda may have defied his calls to boycott the poll. The former president, who ruled Zambia for 27 years from independence in 1964, is protesting against a constitutional amendment that bars him from the contest.

Voting stations across the capital city of Lusaka claimed a turnout of more than 50 per cent – a level that diplomats suggest would give the election a veneer of credibility. *Mark Ashurst, Lusaka*

Jewish settlements approved

Mr Yitzhak Mordechai, the Israeli defence minister, yesterday approved plans for a big expansion of a Jewish settlement in the occupied West Bank, amid growing concern from the Palestinians and Israeli peace groups that they would spark off a new wave of violence and derail the peace process.

The plan involves building 1,200 homes and a study centre for ultra-Orthodox Jews in the Emmanuel settlement close to the Palestinian city of Nablus. Mr Shmuel Lanza, head of the local council at Emmanuel, said building would start in January.

The Palestinian information ministry said the decision would torpedo the peace process and "an atmosphere of conflict and war" would return. *Judy Dempsey, Jerusalem*

CIA officer accused of spying for Russians

By Gerard Baker in Washington

A US Central Intelligence Agency officer appeared in court yesterday on charges that he spied for Russia.

The Federal Bureau of Investigation alleged Mr Harold Nicholson, a career official, had been passing secrets to the SVRR, the successor to the KGB, since June 1994 in exchange for money. He was arrested as he attempted to leave the country on Saturday night with information the FBI believed was about to be passed to Russian agents.

Mr Nicholson, who was arraigned in court in Virgina yesterday, is the second senior CIA official to have been charged with spying since the end of the Cold War. Mr John Deutch, the CIA director, said the information passed had been less damaging than in the case of Mr Aldrich Ames, who was convicted two years ago and is now serving a life sentence, but he acknowledged that it had been extremely serious.

The unauthorised disclosure of the type of information Mr Nicholson had access to "could irreparably damage the national security of the United States," Mr Deutch said.

The case is likely to prove a further embarrassment to the CIA. The agency was criticised for its failure to detect sooner the activities of Mr Ames, which led to the deaths of a number of Russian double agents working for the US. A series of reforms aimed at improving counter-intelligence detection were established after the Ames case.

Mr Deutch rejected claims Mr Nicholson should have been caught earlier and said his arrest illustrated the effectiveness of the new apparatus. But it appears Mr Nicholson's activities were first noticed only when he failed a routine lie-detector test given to CIA officers late last year.

Mr Louis Freeh, the FBI director, said: "The announcement today starkly demonstrates the continuing threat to our national security by foreign intelligence services."

Mr Nicholson, who joined the CIA in 1980, is believed to have passed on biographical information about a number of CIA agents, including at least one who was to have been posted to Moscow. According to the FBI, between June 1994 and earlier this year, he made a series of visits overseas that were followed by unexplained financial transactions totalling more than $100,000. He faces a life sentence without parole if convicted.

Mexican court's conjuring trick makes banks vanish

Appeal ruling has breathed new life into debtors' organisations

An appeals court in the small, dusty town of Mexicali, on Mexico's desert border with the US, has penned a legal blockbuster worthy of the land of magic realism: most Mexican banks, it ruled last month, do not exist.

Beneficiaries in the case were the Pelayo family, hotel owners who won an injunction against Banco del Atlántico bailiffs. Three judges ruled the bank had no right to enforce loan contracts because it suffered from the legal equivalent of having been conceived out of wedlock.

The Pelayos based their defence on a little-known mishap during the privatisation of Mexican banks in 1991-92. In preparation for the sell-off, Congress gave Mr Carlos Salinas, then president, 360 days to change the banks' legal status from national credit associations to limited liability companies. The decrees for 15 of Mexico's 18 banks, however, were issued after the congressional deadline had expired.

The Mexicali judges found this presidential oversight to be a "flagrant violation of the Constitution" which condemned Banco del Atlántico to exist in a "legal nothingness".

According to their reasoning, only three banks "exist" in Mexico: Cremi and Banpaís, where fraudulent practices at both led to central bank intervention in 1994 and 1995; and Probursa, a near-insolvent bank rescued by Banco Bilbao Vizcaya of Spain last year.

News of the ruling has spread like wildfire among hundreds of thousands of indebted families, many of whom, trapped by escalating interest charges since the country's financial crisis began two years ago, have often wished for Mexican banks to disappear from the face of the earth.

"The court ruling is a time bomb," said Mr Gerardo Fernández Noroña, leader of the Citizens' Assembly of Bank Debtors. "It implies that a majority of Mexican banks have no legal identity, and therefore cannot seize assets of customers who have defaulted on their debts."

"Neither should a debtor repay his debts," said Mr Fernández Noroña, warming to his theme, "because there is nobody there, legally speaking, to enforce payment."

The ruling has breathed new life into Mexico's vociferous debtors' organisations, whose momentum had been sapped by a number of government initiatives to lighten the debt burden of Mexico's impoverished and recession-hit middle-classes.

"We are going to launch a national crusade against the banks," Mr Fernández Noroña promised. "We will initiate mass lawsuits against debt collectors, and we will make sure that judges are not cowed by the financial clout of the banking community."

Mr Juan Ramón Jimenez, a lecturer in international finance at the National University of Mexico, is so excited by the Mexicali ruling, he is planning a second line of attack in US courts. "We have no laws against usury in Mexico, but they do exist in the US, where many Mexican banks have representative offices and have issued shares."

Mr Jimenez, who is seeking the advice of the American Bar Association, believes Mexican debtors have a better chance of pursuing their grievances through US courts.

Some debtor organisations, however, have begun warning their members against unscrupulous lawyers who may be raising false hopes among debtors.

"How can we deny the legal existence of banks at the time of debt collection when we recognised their existence by accepting their credit?" Mr Francisco Castro de la Cruz said in a letter to members of the National Association of Credit Card Users (slogan: Credit Card Holders of Mexico Unite! You have nothing to lose but your debts.)

"There are better ways to defend ourselves against the usurious practices of the banks," Mr Castro de la Cruz wrote. "Do not succumb to an illusion which might put your patrimony in danger."

The Mexicali ruling is also exercising the best legal minds of the banking profession. The Association of Mexican Bankers, clearly shaken by the ruling, called a press conference last week to address the issue.

Mr Luis Robles Miaja, a director of BBV-Probursa and chief legal adviser to the Association of Mexican Bankers, said: "You cannot make banks disappear just because presidential decrees were not issued on time.

"There are hundreds, maybe thousands of courts in Mexico, and they often interpret the law in divergent, contradictory ways. There are at least four court rulings which go against the opinion of the Mexicali judges."

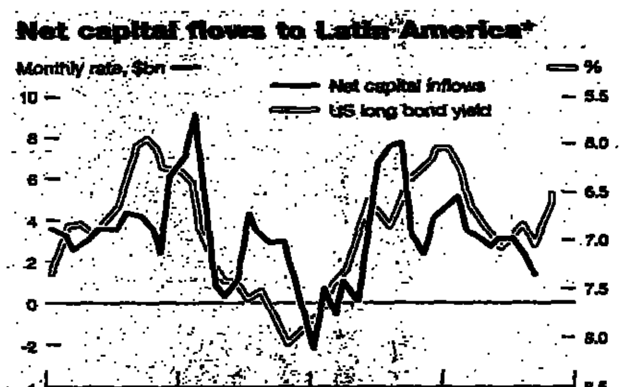
Constitutional experts believe the matter will have to be resolved by the Supreme Court. Few doubt the final resolution will favour the banking establishment.

In private, however, many bank lawyers are cursing Banco del Atlántico for neglecting the Mexicali lawsuit, and allowing matters to get so out of hand.

Leslie Crawford

Latin America sees big investment inflows

By Stephen Fidler, Latin America Editor



Private investment flows into Latin America will rise sharply this year thanks to a recovery of confidence in Mexico, but direct investment into the region remains sluggish, according to new estimates from JP Morgan, the US bank.

Most of the flows are accounted for by new debt and to a lesser extent portfolio equity investment.

Brazil, Mexico and Argentina will receive foreign direct investment (FDI) – commonly regarded as a more desirable, less volatile form of investment – of about $14bn this year.

This represents a modest 1 per cent of the gross domestic product of the three largest Latin economies, according to Morgan.

Mr Michael Hood, an economist with Morgan in New York, estimates net capital flows to all emerging economies will total $143bn this year, up from $137bn in 1995.

Emerging Asian economies are receiving heavier flows than in 1995 – $86bn against $51bn – while flows to eastern Europe and South Africa are drying up.

Inflows to Latin America will fall slightly from $51bn to $49bn, with every one of the main economies now running a capital account surplus.

However, the figures mask a big change in the composition of the inflows.

Private capital inflows to countries other than Brazil will rise to $30bn, compared with outflows of $10bn in 1995. Last year's outflows were covered by large flows of public money from the US and the International Monetary Fund, some of which has been been repaid this year.

The main reason for the difference between 1995 and 1996 has been the "return to health" of what US investors regard as the benchmark emerging market economy, Mexico.

Private creditors which pulled $12.8bn out of Mexico in 1995 will lend a net $7bn this year, while net portfolio equity flows will jump to $6.5bn from $800m.

However, FDI is expected to fall to $4bn from $7bn in 1995, when the peso crash led to a "fire sale" of Mexican fixed assets.

Brazil will therefore become the largest recipient of FDI – $7.5bn against $4.9bn last year. Argentina will receive $2.5bn this year, roughly the same level as Colombia, after a $500m outflow last year.

Total inflows to Brazil this year will fall slightly from $31bn to $28bn.

International debt issues from the region set records from the fourth quarter of last year to the third quarter of 1996.

New debt issues will exceed new equity issues in every country except Peru.

While the improving economic outlook for the region has been helpful in encouraging a return of private capital flows, "the supportive international market climate has added a crucial backdrop", Morgan said.

Interest rates have fallen in most industrialised countries this year, prompting investors to search for bigger yields in the emerging markets.

Colombia arrests two after ransom payout

By Timothy Ross in Bogotá

Two Germans citizens have been arrested in Colombia for paying ransom money to the guerrilla kidnappers of the wife of a retired German executive.

A police anti-kidnap and extortion unit arrested the two, a man in his 50s and a 36-year-old woman, each carrying two passports in different names, as they attempted to board a charter aircraft at Medellin's Rionegro airport with the kidnap victim, Mrs Brigitte Schöne.

Mrs Schöne, the wife of a former director of the Colombian subsidiary of BASF, the German chemicals group, was also carrying a false passport. She had been kidnapped by the Castroite National Liberation Army (ELN) on August 15.

Mr Alvaro Uribe, state governor, said he ordered the arrests because the Germans were paying large amounts of ransom money to "terrorists". The ELN asked for $6m but is reported to have settled for $2m.

"We cannot allow the negotiations for foreign kidnap victims to be carried out behind the backs of the Colombian authorities," said Mr Uribe.

Colombia has the world's highest rate of kidnaps, with more than 1,200 cases known last year and an estimated 800 more believed not to have been reported. Although anti-kidnap units rescue nearly a third of all hostages, about a third are killed by their captors and most foreign companies prefer to pay up. This has made foreigners favourite targets.

Some Colombian authorities appear to have collaborated with the Germans: found in their possession was a gun permit issued by the army high command and their passports had been stamped with exit permits by immigration.

Ragged start for Thailand's new coalition

Things can only get better for Thailand's likely next government. The administration's first day was filled with party manoeuvring, broken promises, a plunge in the stock market and relentless media criticism.

And Gen Chavalit Yongchaiyudh, the probable new prime minister, has still to go through the delicate process of allotting cabinet jobs before he begins to govern.

His daring decision to select as his main coalition partner Gen Chatichai Choonhavan, a popular former premier found to be "unusually rich" after he was deposed in a coup in 1991, instead of Mr Banharn Silpa-archa, the discredited predecessor, has given the nascent coalition some breathing room.

Bringing in Gen Chatichai, leader of the Chart Pattana party, means "at least the election is not a total awful disaster," says Mr Graham Catterwell, head of Thai equities at Deutsche Morgan Grenfell. "The government is likely to fall apart reasonably rapidly... but let's wait until it's born before we kill it off."

Attention is now focused on the cabinet appointments. If Gen Chavalit appoints – as he has repeatedly pledged to do – professionally qualified people to head key economic ministries and give them the freedom to make the tough decisions needed to bring stability to the economy, he will have a foundation on which to build a stable coalition.

Still, it is going to be difficult. The top cabinet posts are likely to go to Chart Pattana as a reward for bailing out Gen Chavalit.

Gen Chatichai has some skilled people around him and is remembered for presiding over an era when Thailand's economy grew at an unprecedented rate. But his economic success was largely the consequence of *eight years of stability* in the early 1980s before he came into office and from a boom in Japanese investment following a dramatic strengthening of the yen.

At the same time Gen Chatichai's economic priority is rapid growth. He has likened the economy to a car; if it's overheating you should drive it faster, he argues. This contrasts with the views of Gen Chavalit and his economic guru, former banker Mr Amnuay Viravan. Both men argue that Thailand needs to stop over-investing and scale back economic ambitions to achieve stability. Mr Amnuay's role in the new government, possibly as finance minister, is unclear.

Chart Pattana is a relatively united party, partly due to the force of Gen Chatichai's personality. The same cannot be said for Gen Chavalit's New Aspiration, which "has too many small factions. There will be many conflicts," says Mr Anek Laothamatas, vice-rector at Thammasat University.

Yet if there are two people in Thailand who know how to smooth egos and forge compromises it is Gen Chavalit and Gen Chatichai – both lack a driving ideology and that makes mutual accommodation possible.

Gen Chavalit is well known for his stint as army commander in the 1980s when he ended Thailand's communist insurgency by adopting the political tactics of local development and decision-making rather than fighting militarily.

He later left a government *led by the Democrat party to* protest against reforms designed to convert appointed local posts into electable positions, earning the support of entrenched local leaders.

This local support and a healthy dose of campaign funds to buy votes helped earn Gen Chavalit his narrow election victory. Of the 5,512 reports of election irregularities filed with the election monitor PollWatch, New Aspiration was the top offender with 1,777 complaints; number two was Chart Pattana with 799. More than half of these were for buying votes with cash.

But these votes will not keep Gen Chavalit and Gen Chatichai in power. The Democrat party won the most seats in Bangkok, the south and the north, and already senior party figures are grumbling they have the most national legitimacy.

This is a theme that will be hammered home until the government makes a serious effort at political reform, as Gen Chavalit has promised, or until it collapses, as the financial markets clearly fear.

Ted Bardacke

Chavalit Yongchaiyudh: bouncing back

1986 Army commander in chief and architect of successful anti-communist strategy employing political tactics rather than military offensives

1990 Resigns from army, forms New Aspiration party, named defence minister, resigns six months later, complaining that politics is 'a system of administration by money, power and lies'

1992 Opposes military-led government, named interior minister

1994 Resigns from ministry after attempting to block political reform moves

1995 Named deputy prime minister and defence minister

1996 Threatens to resign, forcing Prime Minister Banharn Silpa-archa to dissolve parliament; New Aspiration wins two-seat victory in elections and forms six-party coalition government

ASIA-PACIFIC NEWS DIGEST

Britons to lose HK privileges

Hong Kong will abolish immigration privileges for British citizens before the territory's transfer to Chinese sovereignty on July 1 next year, a government spokesman said yesterday. British citizens going to Hong Kong for employment, residence or education will need to apply for visas once the changes take effect, according to an official statement. The period of visa-free access for visitors will be cut to six months from 12 months.

The changes have been widely expected and are designed to bring the immigration status of British citizens into line with that of other foreign nationals. Local trade union leaders welcomed the planned changes.

■ Sir Leon Brittan, European trade commissioner, yesterday called for visa-free access to Europe for Hong Kong people after next year's handover to China. Britain will allow visa-free entry for holders of a new passport for Hong Kong residents, but its European partners have yet to follow suit. *John Ridding, Hong Kong*

Not all plain sailing, Page 16

Japan and France sign accord

Mr Ryutaro Hashimoto, Japan's prime minister, and President Jacques Chirac of France (*pictured above*) yesterday signed an accord to deepen political and economic relations. The agreement stipulates the two leaders will meet annually, a repeat of recent accords between Japan, the UK and Germany.

This is part of a Japanese foreign ministry aim of raising diplomatic ties with European states beyond the merely commercial, in response to deeper integration between members of the European Union. "We were able to start on making our bilateral relationship the most important one for Asia-Europe co-operation," said Mr Hashimoto. *William Dawkins, Tokyo*

Taiwan proposes peace draft

Taiwan's ruling Nationalist party completed the draft of a treaty for peace with China yesterday, proposing talks to end a 17-month impasse in relations with Beijing, state radio reported. The draft, calling for an exchange of representatives to discuss a possible treaty, marks a new attempt by Taiwan to resume contacts with China after a breakdown in what had been slowly warming unofficial ties. China has said talks cannot resume unless Taiwan shows signs of "sincerity", citing abandonment of its quest for a United Nations seat as one obvious gesture. Taiwan has refused. *Reuter, Taipei*

Packer defends media curb

Mr Kerry Packer's Publishing and Broadcasting (PBL) group has come out strongly against any relaxation of the constraints on foreign ownership of Australia's media assets. "Unless Australians want to have all their major media companies under *de facto* foreign control, we must enact and enforce a serious effective set of foreign ownership restrictions," claimed Mr James Packer, managing director of PBL and Mr Packer's son.

Mr Kerry Packer is generally viewed as the most powerful "local" investor in the Australian media sector, and this view contrasts sharply with that of big non-Australian proprietors – Mr Rupert Murdoch (who is deemed a US citizen) and Mr Conrad Black, the Canadian businessman. *Nikki Tait, Sydney*

Hanoi behind in debt deal terms

By Jeremy Grant in Hanoi

Vietnam is two months behind schedule on a plan to finalise the terms under *which it is to repay about* $900m in commercial arrears to London Club creditors, banking sources said yesterday.

The delay is causing concern among bankers who fear that if early agreement is not reached, creditors – mostly Japanese banks – may reject the deal. This could damage Hanoi's efforts to build an image as a responsible debtor at a time when, with a bulging trade deficit, it can least afford it.

Vietnam's cumulative trade deficit was $3.49bn at the end of October and is officially expected to hit $4bn by the end of the year.

"They think the deal has been done. It's a long way from being done. It could still quite easily fall out of bed," said one source.

In May, Hanoi agreed with the London Club a package of proposals that would clear the debt and open a path for the Communist-ruled country's debut on the international capital markets. The move was also expected to improve Vietnam's sovereign credit risk, paving the way for fresh bank lending.

That agreement included a menu of options, the details of which were to be worked out then put to the Vietnamese central bank and to creditors in the form of a "term sheet". They involve a Brady-style settlement including a cash buyback, par bonds bearing low interest and discount bonds at market rates to settle principle, which amounts to about $400m.

A London Club steering committee led by Bank of Tokyo, Mitsubishi and Australia and New Zealand Bank submitted a draft term sheet to the central bank for its comments in July.

But the source said there had still been no response from the bank to the draft, despite expectations that the matter would be settled quickly. "We had a timeline that we were sticking to but they dropped the ball," the source said.

Bankers are worried because the package agreed in May received a lukewarm response from many creditors. One of the options implies 50 per cent forgiveness on the original principle, a figure which Hanoi had held out for in negotiations with the London Club and which contributed to the talks dragging on for more than a year.

However, a more immediate concern is that a significant interest rate fluctuation in the next few months might reduce investors' appetite for emerging market debt, further threatening a final settlement.

OECD bid stirs Seoul opposition

By John Burton and Quentin Peel in Seoul

South Korea's hard-fought agreement for membership of the Organisation for Economic Co-operation and Development faces its last big hurdle tomorrow when the country's two leading opposition parties will attempt to block parliamentary ratification.

They are hoping to split the ranks of the ruling New Korea party over the controversial deal, which calls for progressive deregulation of the country's labour market, and of its highly protected financial sector.

It appeared yesterday, however, that the government of President Kim Young-sam may have done just enough to prevent an embarrassing defeat, by persuading the 12-member Democratic party to support its cause. Those votes should reinforce its own narrow three-vote majority in the 299-member national assembly to ensure ratification.

The South Korean government, which finalised the deal in talks with top OECD officials last month, is hoping to rush ratification through parliament this week just before Mr Kim leaves for a high-profile trip to the Asia-Pacific Economic Co-operation summit in Manila at the weekend.

The two main opposition parties, the centre-left National Congress for New Politics and the conservative United Liberal Democrats, have criticised the government for its haste in gaining OECD ratification.

"We need to have more time for a considered review of the OECD," said Mr Kim Dae-jung, who leads the biggest opposition party, the NCNP, which has favoured a delay of OECD membership by two or three years. It fears that economic reforms demanded by the OECD could further destabilise an already weak economy. In particular, critics of the OECD deal argue that financial deregulation will mean significant job losses in the inefficient banking sector, and labour deregulation will make it easier for companies to fire workers during an economic downturn.

"The government has not adequately prepared the country for its entry into the OECD," said Mr Kim Dae-jung, who added that many Korean economists and corporate executives wanted a delay.

However, the opposition leader indicated he would approve OECD membership if the government made concessions on political reforms that his party is seeking before next year's presidential election, in which Mr Kim Dae-jung is expected to be a candidate. "There is not a direct link between these issues, but politics is a matter of give and take."

As a result, the opposition has tried to keep the OECD agreement bottled up in committee to stop it reaching the floor for a vote. In response, the ruling party is considering ways to present the bill on the authority of the parliamentary speaker.

Pakistan hard line on corruption

By Farhan Bokhari in Islamabad

Pakistan's President Farooq Leghari yesterday announced tough new anti-corruption laws for politicians and senior bureaucrats in a move which, officials say, may lead to those charged with corruption being barred from contesting next February's elections.

A presidential decree said politicians *found guilty of* corruption would be banned from running for public office for five years. They could also face a jail sentence of up to seven years and a fine equivalent to the value of the money determined to have been earned from corruption.

Army officers working on secondment for the government could be prosecuted, though serving officers in uniform would still be immune.

The presidential ordinance is valid for only 120 days and its prescriptions would have to be enacted by a new parliament to have permanent effect, but the move is seen as having a far-reaching impact on Pakistan's present political environment.

Officials and western diplomats say *the law will be used to screen* politicians from the country's two main political parties – the Pakistan People's party and the Pakistan Muslim League – before the elections.

Mr Leghari also announced he would soon appoint a serving or former supreme court judge to the new post of Chief Accountability Commissioner with a four-year tenure, and a mandate to try cases of corruption. "I am very clear in my mind that the people of Pakistan want their leaders to be held accountable," he said.

At least five senior officials who served in the government of Ms Benazir Bhutto have been arrested on corruption charges, while another 10 are under investigation, officials say.

*Mr Leghari, who yesterday met for*eign journalists for the first time since Ms Bhutto's dismissal, defended his decision to oust her on the grounds that her government had brought the country close to a default on debt repayments. He also repeated charges of interference by the Bhutto government in the work of the judiciary.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

■ UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.5	8.1	6.49	7.67	3.43
1987	11.6	6.5	6.82	8.39	3.12
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.4	2.0	3.75	7.00	2.95
1993	11.6	1.2	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	-0.3	2.0	5.93	6.57	2.61
4th qtr.1995	-1.8	3.9	5.73	5.89	2.38
1st qtr.1996	-2.4	5.1	5.30	5.88	2.21
2nd qtr.1996	-2.6	5.2	5.42	6.70	2.18
3rd qtr.1996	-3.8	4.1	5.49	6.77	2.20
November 1995	-1.7	3.8	5.74	5.93	2.42
December	-2.1	4.2	5.83	5.71	2.24
January 1996	-2.6	4.5	5.42	5.64	2.26
February	-2.6	4.9	5.15	5.81	2.17
March	-1.9	5.6	5.31	6.26	2.19
April	-2.4	5.6	5.38	6.50	2.20
May	-2.5	5.1	5.39	6.72	2.18
June	-2.4	4.7	5.48	6.90	2.17
July	-3.2	4.3	5.53	6.86	2.25
August	-3.9	4.1	5.42	6.62	2.18
September	-4.2	4.0	5.52	6.82	2.16
October	-4.9	4.1	5.43	6.54	2.08

■ JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	8.2	5.12	5.35	0.84
1987	10.5	11.5	4.15	4.64	0.56
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	-0.4	4.28	5.24	1.00
1993	3.0	1.4	2.83	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995	8.2	3.2	1.12	3.39	0.86
4th qtr.1995	12.9	3.2	0.43	2.88	0.81
1st qtr.1996	15.5	3.1	0.49	3.16	0.76
2nd qtr.1996	15.7	3.8	0.49	3.24	0.72
3rd qtr.1996	13.3	3.5	0.51	3.11	0.75
November 1995	13.9	3.4	0.44	2.88	0.83
December	12.8	3.2	0.42	2.86	0.77
January 1996	14.7	3.1	0.45	3.10	0.75
February	15.7	2.8	0.50	3.19	0.75
March	16.1	3.1	0.51	3.18	0.77
April	15.3	3.0	0.49	3.23	0.71
May	15.5	3.3	0.52	3.28	0.72
June	16.3	3.8	0.46	3.19	0.71
July	14.3	3.7	0.55	3.27	0.74
August	13.8	3.7	0.53	3.14	0.76
September	13.1	3.5	0.43	2.91	0.76
October			0.43	2.75	0.76

■ GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	9.9	7.3	4.64	5.90	1.79
1987	9.0	7.3	4.03	6.14	2.21
1988	9.8	6.4	4.34	6.46	2.81
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.68	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.1	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.0	4.53	6.82	2.00
4th qtr.1995	4.9	1.3	4.01	6.32	2.02
1st qtr.1996	9.5	5.4	3.45	6.17	1.88
2nd qtr.1996	10.5	7.3	3.33	6.47	1.87
3rd qtr.1996	10.8	8.0	3.27	6.34	1.81
November 1995	4.4	1.0	4.01	6.32	2.04
December	6.3	2.5	3.94	6.07	1.97
January 1996	8.2	3.7	3.62	5.90	1.88
February	9.7	5.9	3.35	6.18	1.86
March	10.6	6.7	3.36	6.44	1.91
April	10.6	7.1	3.33	6.39	1.88
May	10.4	7.5	3.29	6.45	1.87
June	10.4	7.2	3.38	6.57	1.84
July	11.3	7.8	3.38	6.46	1.85
August	10.8	8.2	3.29	6.30	1.81
September	10.3	7.9	3.12	6.23	1.78
October			3.12	6.00	1.73

■ FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	6.4	7.78	8.36	2.65
1987	4.1	11.5	8.63	9.46	2.75
1988	3.8	8.3	7.94	9.06	3.86
1989	7.5	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	-4.8	2.4	9.62	9.03	3.58
1992	-0.2	5.4	10.36	8.57	3.55
1993	1.6	-2.2	8.56	6.75	3.21
1994	2.9	0.7	5.64	7.21	2.99
1995	8.4	4.7	6.80	7.53	3.17
4th qtr.1995	8.4	4.7	6.14	7.10	3.25
1st qtr.1996	7.5	3.3	4.47	6.55	3.10
2nd qtr.1996	7.1	1.0	3.96	6.51	3.02
3rd qtr.1996	5.4	-0.5	3.86	6.35	3.18
November 1995	1.8	4.0	5.90	7.06	3.20
December	8.4	4.7	5.60	6.76	3.23
January 1996	5.3	4.0	4.70	6.44	3.08
February	4.3	3.0	4.42	6.58	3.11
March	7.5	3.3	4.27	6.64	3.10
April	4.1	1.8	4.00	6.51	3.02
May	5.9	1.9	3.90	6.46	3.01
June	7.1	1.0	3.98	6.56	3.02
July	4.4	0.2	3.84	6.46	3.16
August	6.7	-0.1	3.98	6.35	3.20
September	5.4	-0.5	3.75	6.24	3.13
October			3.51	5.97	3.00

■ ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.5	8.4	13.25	11.47	1.41
1987	10.4	9.5	11.32	10.58	1.94
1988	7.8	8.5	11.24	10.54	2.71
1989	9.5	9.3	12.42	11.61	2.48
1990	9.3	10.1	11.96	11.87	2.84
1991	7.3	8.3	11.83	11.23	2.76
1992	6.9	7.7	13.86	13.20	3.45
1993	4.7	7.4	10.22	11.23	2.35
1994	6.8	5.1	8.48	10.56	1.67
1995	0.2	0.4	10.38	12.22	1.72
4th qtr.1995	0.5	1.9	10.60	11.59	1.77
1st qtr.1996	-0.8	2.5	9.88	10.57	1.74
2nd qtr.1996	-0.7	3.6	9.01	9.89	2.24
3rd qtr.1996	1.4	4.1	8.59	9.38	2.49
November 1995	0.1	1.8	10.60	11.64	1.81
December	1.3	2.5	10.51	11.18	1.74
January 1996	0.5	2.6	10.01	10.47	1.66
February	-1.2	2.5	9.84	10.54	1.67
March	-1.7	2.3	9.80	10.71	1.90
April	-1.8	2.8	9.52	10.35	2.14
May	-0.5	3.8	8.84	9.72	2.25
June	0.2	4.4	8.65	9.59	2.33
July	0.7	4.4	8.66	9.45	2.46
August	1.8	4.4	8.70	9.50	2.48
September	1.6	3.6	8.39	9.19	2.53
October			7.96	8.34	2.33

■ UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	4.0	15.4	11.02	10.21	4.35
1987	4.7	15.2	9.77	9.69	3.60
1988	6.8	17.3	10.41	9.82	4.48
1989	5.9	17.8	13.96	10.11	4.36
1990	5.3	16.1	14.82	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.87
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.0	5.57	8.01	3.94
1995	5.9	7.2	6.77	8.16	4.15
4th qtr.1995	5.5	9.4	6.71	7.77	4.04
1st qtr.1996	5.7	10.1	6.28	7.72	4.15
2nd qtr.1996	6.8	9.9	6.06	8.06	4.08
3rd qtr.1996	7.2	9.5	5.83	7.95	4.13
November 1995	5.7	9.3	6.73	7.76	4.05
December	5.9	9.8	6.57	7.46	4.04
January 1996	5.4	10.5	6.45	7.41	4.19
February	6.2	10.0	6.24	7.72	4.08
March	5.8	10.0	6.08	8.05	4.19
April	6.6	9.9	6.12	8.08	4.02
May	6.4	9.9	5.94	8.05	4.08
June	7.1	9.1	5.80	7.91	4.21
July	7.5	9.5	5.84	7.52	4.12
August	7.0	9.9	5.87	7.81	4.08
September	7.5		6.02	7.51	3.93

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US - 90-day commercial paper, Japan - 3-month certificates of deposit, Germany - 3-month Fibor, France - 3-month Pibor, Italy - 3-month Euro-lira, UK - 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

BELGIUM

A nation united in grief and anger

In the wake of shocking scandals, EU-related reforms may not be enough to correct domestic ills, says Neil Buckley

The outside world will remember Belgium by one image in 1996: that of 325,000 people marching solemnly and silently through the streets of Brussels, to demonstrate a crisis of public confidence in the country's political and legal system.

The White March, so-called after marchers wore white and carried white flowers to symbolise innocence and purity, cut across the country's deep cultural divide. French-speaking Walloons and Dutch-speaking Flemish united in demands for sweeping constitutional reform. This public outpouring of grief and anger, scarcely before seen in Belgium's 166-year history, was organised to show support for the parents of four girls killed by a paedophile ring. But it marked the culmination of weeks of scandals which have left the country in shock.

First came the arrest of Marc Dutroux in August for the abuse and murder of four girls, and abduction of two others – a case grimly reminiscent of that of Fred and Rosemary West in the UK.

Grief became anger as it emerged Dutroux had previously been released after serving only three years of a 13-year sentence for rape, and that police had twice searched the house where two of his victims were held. Accusations of police bungling and cover-ups intensified as a police inspector was among more people arrested for alleged association with Dutroux in a criminal ring involved not just in child pornography but also trafficking in stolen cars.

Within weeks, Belgium suffered another shock as five men, including a former regional minister, Mr Alain Van der Biest, were charged with the 1991 shooting of Mr André Cools, former Belgian deputy prime minister.

The long-running Cools investigation had already uncovered a network of fraud cases, including the so-called Agusta bribery scandal which led to the resignation of four ministers and the Belgian secretary-general of Nato, Mr Willy Claes.

What finally drove Belgians on to the streets was the dismissal of the talented judge investigating the Dutroux case, Mr Jean-Marc Connerotte. In a supreme court decision viewed by Belgians at best as absurd, and at worst as further evidence of attempted high-level cover-ups, Mr Connerotte was deemed to have shown bias in the Dutroux affair by attending a dinner in support of the victims' families.

Mr Jean-Luc Dehaene, the prime minister whose government some commentators say is lucky to have survived the crisis, says the White March sent "powerful signals". He has pledged to put legal reform at the top of his agenda. But, he told the FT this month, to suggest Belgium's problems are unique is unfair. All western countries, he says, face problems with paedophile rings, and organised crime which increasingly crosses borders. All, to some extent, are finding increasingly sophisticated electorates becoming alienated from the political process.

The outcry in Belgium, he adds, was sparked by an unfortunate combination of circumstances, with the highly emotive catalyst of the abuse and murder of children. He argues that the "serene, dignified and democratically adult" way last month's protest was conducted demonstrates Belgium's political maturity, and rejects charges that its institutions are riddled with incompetence and corruption.

"Just because there was one case of malfunctioning of the justice system, it's not true that the whole system functions badly," he says. "Because there was a malfunctioning of the police, that doesn't mean the police are worthless. Just because there were the Cools and Agusta cases doesn't mean the political world is rotten. But public opinion has a tendency to make these kinds of generalisations.

"What is important is to examine the cause of these malfunctions and try to correct them," he adds.

The government hopes to correct the problems through reforms including a review of treatment of crime victims, creation of a new structure overseeing Belgium's legal districts, reorganisation of the police, ending political influence in the appointment of judges, and introduction of information technology systems.

Satisfying citizens that legal reform is proceeding rapidly enough, while asking them to make yet more sacrifices after a three-year austerity programme aimed at ensuring Belgium qualifies for monetary union, and tackling another priority – social security reform – will test Mr Dehaene's renowned political skills to the limit.

After he persuaded parliament to give him special powers to legislate on the painful 1997 budget by decree, most observers believe the package he constructed with Mr Philippe Maystadt, finance minister, and other senior ministers, puts Belgium firmly on track for Emu. It projects a budget deficit of 2.9 per cent – below the 3 per cent target in the Maastricht convergence criteria – and a four-point reduction in Belgium's debt mountain. Membership of the euro is vital to ensure Belgium, half of whose exports go to neighbouring, single-currency aspirants Germany, France and the Netherlands, is not at a competitive disadvantage and continues to play a central role in the European Union.

But with some questioning whether economic growth will meet government forecasts, extra tax or spending measures may still be needed. Parliament has granted the government temporary special powers to make last-minute adjustments.

The government was also given special powers to legislate by decree in reforming Belgium's over-stretched social security system.

The challenge is to cut costs by shifting more responsibility, particularly for healthcare and pensions provision, on to the individual – without alienating the socialists in Mr Dehaene's four-party coalition government, or Belgium's more welfare-dependent Walloon half. Welfare reforms are also aimed at cutting the crippling social costs borne by Belgian companies – linked to another principal policy objective: improving competitiveness.

The Federation of Belgian Enterprises, the employers' organisation, has estimated that the cost of employing labour is 10 per cent higher in Belgium than in neighbouring countries, and among the highest in the EU.

Improving competitiveness is linked, in turn, to the government's final main objective of reducing unemployment – about 10 per cent by EU definitions, but almost 14 per cent according to Belgian measures.

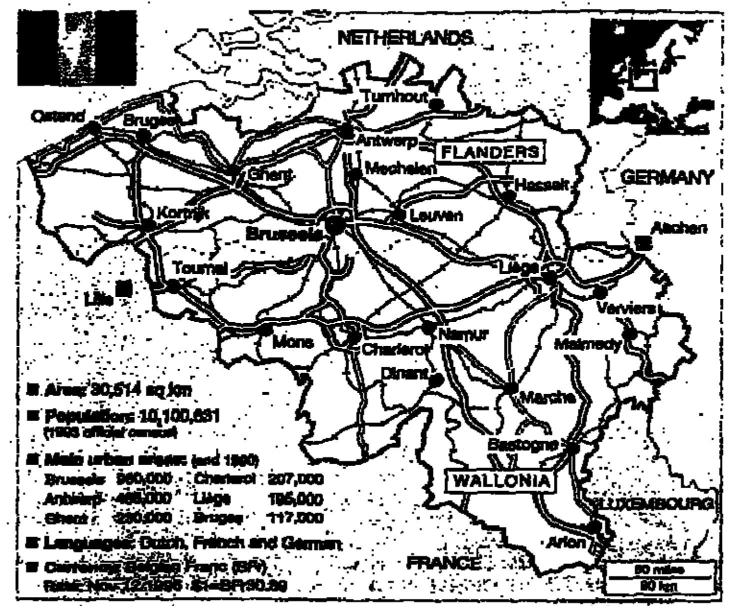
Yet a "contract for the future" brokered by the government between employers and unions this spring – including a reduction in the working week, more flexible hours, and wage moderation – was undermined when the second-biggest union, the French socialist FGTB, refused to endorse it. Recently, talks between unions and employers on a 1997 wage settlement for Belgium's 2.2m private sector workers – the first increase after a three-year wage freeze – have proved bitter.

The talks took place in the framework of a new competitiveness law passed in July, limiting any wage increase to the average in Belgium's three neighbours, and authorising the government to impose a settlement if agreement cannot be reached. Mr Dehaene is disappointed a voluntary agreement has proved so elusive.

"Personally, I find it extremely worrying that [Belgium's] social model is having more and more difficulty functioning," he says.

He draws parallels with

Continued on Page II



Economic summary

	1995	1996(est)
Total GDP, nominal ($bn)	266	258.2
Real GDP growth (annual % change)	1.9	0.8
GDP per head ($)	26,280	25,310
Inflation (annual % change in CPI)	1.5	1.8
Av. hourly earnings (annual % change)	1.7	1.9
Industrial production (annual % change)	2.2	0.8
Unemployment rate (%)*	9.4	9.2
General govt. financial balance (% of GDP)	-4.1	-3.3
Household savings ratio (%)	19.3	21.0
Interest rate**	4.8	3.2
Current account balance ($bn)	15.1	15.4
Merchandise exports ($bn)	157.9	157.5
Merchandise imports ($bn)	-149.1	-149.0
External trade balance ($bn)	8.8	8.5

* OECD standardised **3 month market rate

Government and constitution

Head of state
King Albert II (succeeded to the throne in August 1993)

Council of ministers
Jean-Luc Dehaene (Prime minister)
Herman Van Rompuy (Deputy prime minister and minister of budget)
Philippe Maystadt (Deputy prime minister and minister of finance & foreign trade)
Elio Di Rupo (Deputy prime minister and minister of economics & telecommunications)
Johan Vande Lanotte (Deputy prime minister and minister of interior)

National government
Council of ministers headed by prime minister appointed by the monarch on basis of ability to gain support of Chamber of Representatives. There is currently a Christian Democrat (Christian People's Party and Christian Social Party) - Socialist coalition government.

State legislature
Councils with governments for the regions of Flanders, Wallonia and Brussels-Capital as well as for the linguistic communities; the Flanders government and the Flemish linguistic community governments have effectively been merged.

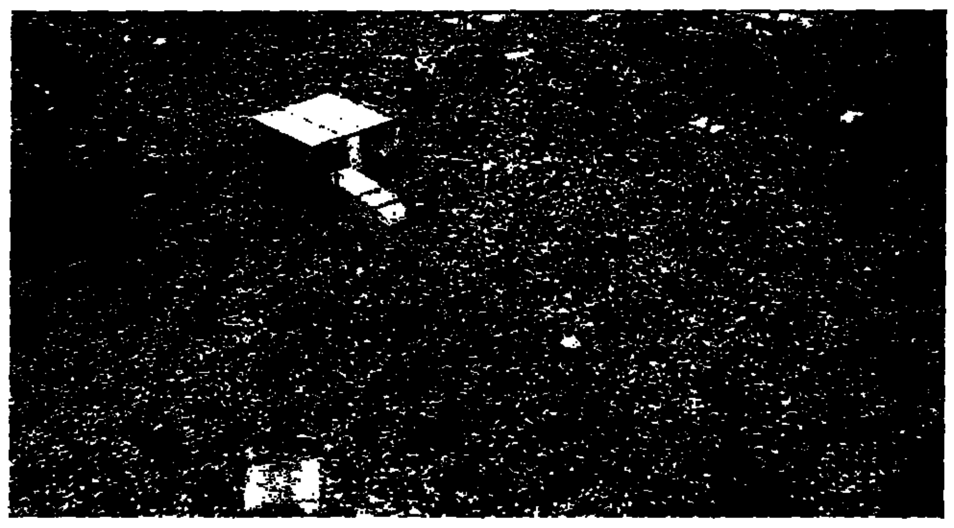
Federal legislature
Chamber of Representatives of 150 members directly elected by a system of proportional representation; Senate of 72 members, 40 directly elected, 31 indirectly elected or co-opted and the heir to the throne.

Elections
Last election: May 21 1995
Next election due: May 1999

Source: EIU; Belgostat; Datastream

IN THIS SURVEY

- **Economy:** the government is determined to meet the Maastricht convergence criteria
- **Banking and finance:** transition to the euro could cost banks at least BFr15bn over the next four years **Page 2**
- **Interview with prime minister Jean-Luc Dehaene:** in a wide range of reforms to be tackled, he identifies pensions and health assurance as priorities
- **Investment:** Belgium has natural geographical and infrastructural advantages to attract foreigners, but it needs to enhance these through improving its services and labour costs
- **Privatisation:** Belgacom has had to try to make the leap - with the help of a foreign consortium - from an inefficient state-owned monopoly to a company capable of meeting European competition; and Sabena, after Swissair's 49.5 per cent investment, hopes to have overcome labour problems and make a profit **Page 3**


The White March: support for victims' families and protest against paedophilia Pepperfoto/Reuter

Economy: by Neil Buckley

Firmly determined to qualify

To meet Emu criteria, further long-term structural reforms will be needed

Few European Union countries have shown as much determination as Belgium to guarantee a place among the first countries to join a single European currency. Prime minister Jean-Luc Dehaene this year won special powers to pass the 1997 budget by decree to ensure Belgium meets the Maastricht convergence criteria.

Yet his "Budget of the Century" unveiled last month left many economists disappointed, and Belgian newspapers asking if the prime minister's special powers had really been needed.

While the budget looks set to meet the criteria – and Mr Dehaene has continuing special powers to make adjustments at any stage if there is a danger of overshooting – economists say it failed to tackle longer-term structural problems. Even if Belgium qualifies for monetary union, significant economic challenges will remain.

Exclusion from the euro could cost Belgium dearly. Exports play an unusually important part in the economy, accounting for 70 per cent of GDP, half of them going to Belgium's three neighbours and likely euro members, France, Germany and the Netherlands.

Belgium meets three of the qualifying criteria – on inflation, interest rates, and exchange rates – without difficulty. But it has not yet reduced its budget deficit below the target 3 per cent of GDP, and has no chance of bringing down gross debt – 133.5 per cent of GDP last year, the highest ratio in the EU – to the Maastricht target of 60 per cent.

The government hopes that achieving four of the five criteria, while demonstrating that debt is on a firmly downward track, will be enough to guarantee membership of the euro.

After a three-year austerity programme, including a national wage freeze, to bring the deficit under control, the government hoped to reduce it from 4.1 per cent in 1995 to 3 per cent this year – meeting the target a year early. But slower-than-forecast economic growth torpedoed its plans.

That made hitting 3 per cent next year an imperative. Mr Dehaene's budget, including BFr80bn of measures balanced between savings cuts, indirect tax increases and other special measures, projects a 2.9 per cent deficit, based on what the majority of economists and international institutions agree is a conservative growth forecast of 2.1 per cent.

The budget included BFr370bn of measures to reduce debt, including using a BFr222bn foreign exchange surplus built up on gold transactions in recent years, and some BFr70bn of asset sales. That should reduce the debt ratio by four percentage points next year to 127 per cent – making a total reduction of 10 percentage points since 1993.

Mr Dehaene was so confident his measures would ensure Belgium's inclusion in the euro club that he joked the subject was now effectively closed.

Not all observers agree. Mr Ivan Baldewijns, head of research at Smeets, the Antwerp-based broking house, believes the government's economic growth forecast is based on assumptions on consumer spending and exports that are far too optimistic.

Based on a comparative analysis with the US and other European economies, Mr Baldewijns forecasts Belgian growth of only 1.5 per cent – which would mean Mr Dehaene's government having to take significant extra measures in order to meet the Maastricht target.

"I have no doubt the 3 per cent figure will be met," says Mr Baldewijns. "The question is, at what cost?" Economists also complain that the budget was insufficiently "structural" in nature, doing little to tackle the bloated social security and public pensions systems.

Mr Geert Noels, economist at Petercam, a Brussels broking house, says that to suggest lower-than-expected growth is the only reason for Belgium missing the Maastricht deficit target this year is an over-simplification. Higher-than-forecast increases in social security spending were largely responsible, with growth in healthcare spending particularly high.

This has nothing to do with disappointing economic growth, says Mr Noels, but with the failure to control costs such as doctors, health funds and hospitals. The increase in pension spending, another element not linked to economic growth, also outstripped inflation.

On the other side of the equation, Mr Noels warns that tax revenues have proved less elastic than the government forecast, and have grown more slowly than GDP. That suggests the tax burden on the economy cannot be pushed much higher. Taxes may have reached the level where some activities are being hampered, or shifted to the black economy.

The only long-term solution, he concludes, is deep reforms of both the social security and pensions systems. The special powers granted to Mr Dehaene in the summer to legislate by decree cover social security reforms, but little progress has so far been made.

Bringing social spending under control might enable the government to ease the tax burden, which could in turn improve Belgian competitiveness and contribute to reducing the 10 per cent unemployment rate.

The government has made promoting employment and competitiveness another of its policy goals, and included BFr6bn of job creation measures in the 1997 budget. Earlier this year it reached agreement with unions on an employment package, including a reduction in employers' social security contributions, a cut in the working week from 40 to 39 hours, and more flexible working arrangements, although the powerful FGTB socialist union later refused to endorse the pact.

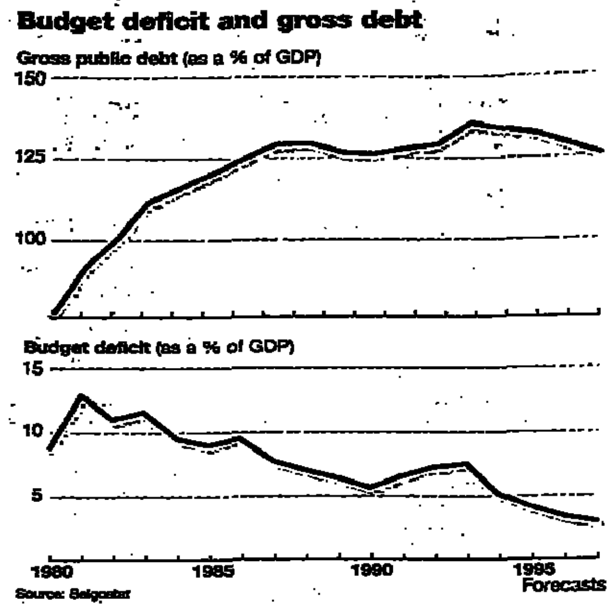
Another element of the pact was that annual wage increases should be capped at no more than the average in Belgium's three neighbours, and the special powers granted to Mr Dehaene in summer allowed him to impose such a settlement if agreement could not be reached with unions.

The last of Belgium's main economic challenges is continuing to reduce its crippling debt – a legacy of government mismanagement and Belgium's economic crisis after the oil price shock of the 1970s. Interest charges on the debt – worth 9.1 per cent of GDP last year – impose a heavy burden on the budget, which would otherwise show a healthy surplus.

The government says maintaining a primary budget surplus over the next few years of at least the 5.5 per cent projected this year will provide scope for significant debt reduction. That should create a "reverse snowball" effect, as falling debt leads to lower interest charges, freeing even more funds to cut the debt.

But while debt remains at high levels, Belgium's budgetary room for manoeuvre will continue to be severely limited. This means that for Belgian citizens who have already endured three years of austerity, the message is clear: while the goal of monetary union may be well within Belgium's grasp, the belt-tightening is far from over.

Budget deficit and gross debt



Source: Belgostat

Public finances: main indicators (% of GDP)

	1993	1994	1995	1996	1997
Primary financing surpluses	+3.8	+5.1	+5.0	+5.5	+6.0
of which: -federal authorities & social security	+3.5	+4.9	+4.9	+5.2	+5.5
Budget deficit	−7.0	−5.0	−4.1	−3.3	−2.9
of which: -federal authorities &	−5.5	−4.7	−4.0	−3.1	−2.7
-social security	−0.3	−0.5	+0.3	+0.2	+0.2
Average budget deficit of EU member states	−6.2	−5.5	−5.1	−4.4	−3.4
Gross public debt	137.0	135.1	133.7	130.4	127.0
of which: -federal authorities	123.8	121.5	120.3	117.5	115.2

Source: Belgian Government

Banking and finance: by Neil Buckley

In the euro queue

Single currency requirements and tougher rivalry will cost the system dear

For Belgium's banking and financial services sector, one challenge looms large: preparing for monetary union.

Belgium, one of the most enthusiastic supporters of a single currency, this summer became the first EU state to pledge to meet the timetable for transition to the single currency agreed at last December's Madrid summit of EU leaders.

Mr Philippe Maystadt, finance minister, published an eight-point plan for transition to the euro drawn up by representatives of the banking community, Brussels bourse, tax authorities, national bank and the treasury. This involves issuing central bank and market information and conducting all interbank payments in euros from January 1 1999.

Belgium also promised to go beyond the Madrid requirements by issuing bonds and treasury bills in euros from the same date.

Like all banks in the single currency zone, Belgian banks face considerable costs from transition to the euro, as well as lost revenues from foreign exchange dealings. The Belgian bankers' association forecasts transition costs alone, from upgrading IT and operating systems, at BFr15bn ($500m) over the next four years – equivalent to an annual rate of 7.5 per cent of Belgian banks' total 1995 net profits of BFr50bn.

The association also forecasts that lost foreign exchange income after 1999 will total BFr5bn per year – equivalent to 10 per cent of last year's net profits.

Belgium's biggest banks have all started this year to make provisions for transition costs. Banque Bruxelles Lambert, fourth largest by assets, estimates its costs at between BFr500m and BFr600m annually over four years; Générale de Banque, the biggest, took a one-off provision of BFr2bn in its latest half-year results.

Kredietbank, third biggest, estimates its transition costs at up to BFr1bn.

But on top of the cost, disappearance of the Belgian franc will make Belgian banks much more vulnerable to cross-border competition – prompting a debate over whether they are big enough to compete in a single-currency Europe. Speculation was intense at the start of this year about a possible merger between two or more bigger banks to produce a *Grande Banque Belge*.

The fact that, by international standards, Belgium is grossly overbanked, fuelled the debate. Belgium has 147 banks for a 10m population, compared with 55 banks for 15m people in its neighbour, the Netherlands.

The number of tiny banks is illustrated by the fact that the biggest seven banks account for 75 per cent of the market, while the top 31 account for 90 per cent. The same top seven reported a 16.3 per cent increase in total net profits in 1995, while banks outside the top 50 showed a 35 per cent profits decline.

Speculation on a megamerger was launched in autumn 1995 by Mr Daniel Cardon, chief executive of BBL, who said he would like to see his bank form some kind of alliance. Speculation reached a peak last winter when senior ministers including Mr Philippe Maystadt, finance minister, Mr Elio di Rupo, economics minister, and Mr Alfons Verplaetse, the national bank governor, backed the idea of a *Grande Banque Belge*.

It later emerged that talks on an alliance between BBL, Générale de Banque, and Crédit Communal de Belgique, the second-largest bank, had indeed taken place, but the respective shareholders had been unable to agree.

Most observers believe the opportunity for a megamerger has now passed. The three biggest quoted banks believe they are big enough to compete post-Emu, and have strengthened their European reach by acquiring smaller banks in neighbouring countries.

But widespread consolidation is still forecast in the ranks of the smaller banks.

"Small banks will have to search for some solutions [to Emu]," says Mr Rik Pareit of the Belgian Bankers' Association. "They will have to look for co-operation with bigger banks and ask the question whether they can continue on their own."

The only one of the big four banks that has decided not to go it alone is Crédit Communal, owned by Belgium's municipal authorities. It is forming a strategic alliance with Crédit Local de France, the French bank specialising in public sector borrowing.

Mr François Narmon, CCB's chairman, says the new group, called Dexia, has ambitions to expand into public sector finance in eastern and southern Europe, and financing big infrastructure projects.

CCB this month launched Belgium's biggest initial public offering, floating 30 per cent of equity on the Brussels bourse for about $1bn, in connection with the deal.

The alliance will be based on management co-ordination and mutual lending rather than a formal merger. It hopes to make a similar success of its alliance to that enjoyed by Fortis, the insurance and financial group created by combining the operating activities of the Belgian AG and Dutch AMEV/VSB group in 1993.

Belgium's insurance sector, even more than the banking sector, is dominated by small players, with 350 groups operating in the market. Many, however, are subsidiaries of other Belgian or foreign groups – the well-known Royale Belge is controlled by France's UAP and Belgian holding company Groupe Bruxelles Lambert.

Fortis, the only significant player that is not a subsidiary, has set its sights on overseas expansion. "We have a level of insurance in Belgium where there is not much scope for growth – unlike in Spain or the US, for example," says Mr Maurice Lippens, chairman of Fortis.

He also sees significant opportunities, not just for Fortis but for other Belgian financial groups in asset management – an underdeveloped industry in Belgium – especially as social security reform is expected to shift more of the burden of pension provisioning on to the individual.

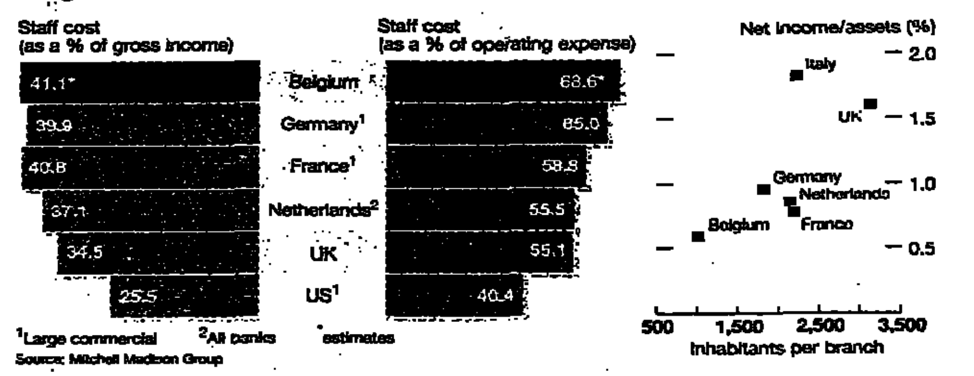
"Belgium has a very generous social security system. That may change and is something we are all looking at very carefully and eagerly," says Mr Lippens.

With that in mind, Fortis last month signed a letter of intent to acquire ABN Amro Bank's fund management arm MeesPierson. Fortis sees scope for MeesPierson, which has Fl50bn ($29bn) in securities and cash under management, in asset and fund management for third parties, private and corporate banking.

Other groups are also expected to enter the market.

"The bad news is Belgium is not very far down the road in fund management," says Mr Lippens. "But the good news is it is soon likely to make a quantum leap."

Belgian banks



¹Large commercial ²All banks *estimates
Source: Mitchell Madison Group

United by grief and anger

Continued from Page 1

the legal system, warning that unions' and employers' structures were born in the industrial era and have not adapted to the modern age.

But reform of the "social partners" to facilitate a new social dialogue is a task for the partners themselves, he adds, not the government.

This need for a new dialogue is perhaps a theme, a lesson to be drawn from Belgium's tumultuous 1996: not just between union and employer, but between Fleming and Walloon, citizen and state. Mr Dehaene originally put economic issues at the heart of the programme of his second coalition government. But history might judge it a bigger achievement if, by the 1999 election when the Belgian premier has said he will stand down, he can start restoring confidence in the nation's institutions, and create a Belgium more at ease with itself than it has been in 1996.

■ **Interview:** Jean-Luc Dehaene

The man right in the eye of reform

The premier explains to **Neil Buckley** his approach towards restoring shattered national confidence

Mr Jean-Luc Dehaene does not look like a man under siege. But the Belgian prime minister knows he faces one of the most difficult tasks of any EU premier: trying to restore public confidence in the legal and political system after a virtual collapse.

Some 325,000 citizens – 3 per cent of the population – marched through Brussels last month to protest at the incompetence and corruption exposed by mishandling of a horrific paedophile murder case, and make clear their demand for a constitutional overhaul.

Steering through constitutional reforms, as well as much-needed reform of the bloated social security system, will require all the deal-making and compromise-building skills of the man Belgians like to call the "plumber".

For almost 20 years the Flemish Christian Democrat has proved a figure capable of reaching out across Belgium's political and regional divides, first behind the scenes as power broker and chef de cabinet of former prime minister Mr Wilfried Martens, and, since 1991, as head of two successive coalition governments.

But in recent weeks, the typically Belgian consensual approach to politics he represents has come under attack; the prime minister has been accused of complacency.

This time, say critics, the classic *compromis à la Belge* is not enough: in both the legal and social security systems, root and branch reform is necessary.

The Belgian premier says problems such as paedophile and criminal rings are not peculiar to Belgium. But he admits that the so-called White March, and the legal scandals which led up to it, exposed "malfunctions" in Belgium's legal institutions.

"It is clear that the justice system is overdue for reform, and must pass rapidly from a climate and model with its origins in the 19th century, to a system for the 21st century, using all the information technology resources now available," he says.

He has committed the government to getting five specific reforms through parliament by next summer. One is reviewing the treatment of crime victims and their families, to ensure they are not left feeling – as happened in the Dutroux case – that the system cares more about respecting the rights of the accused than it does about them.

Second is the creation of a new umbrella structure on top of Belgium's 25 independent legal *arrondissements* to ensure proper exchange of information and co-ordinate joint action.

Then comes reorganisation of Belgium's two national police forces – the gendarmerie and the judicial police, linked to the prosecution service – to define clearly their respective roles, and improve communications between them and the judicial authorities.

Fourth is to end political influence in the appointment of judges, introducing a recruitment and promotion system based on merit and assessment through examinations.

Finally, says Mr Dehaene, spending on the legal system must be increased to allow introduction of advanced IT systems and upgrade the fabric of buildings.

He believes these reforms together should eventually create the efficient, transparent justice system Belgian requires. But he "does not dare" to try and predict how long rebuilding public confidence will take. "Time will be required for reforms to be felt," he says. "It's not just necessary to pass a law, the whole system then has to apply it correctly."

Jean-Luc Dehaene: the "plumber" will need all his deal-making and compromise-building skills *Reuter*

On the economic front, Mr Dehaene believes he has succeeded in his aim of positioning Belgium to be among the first countries to join European monetary union. While a three-year austerity programme has provoked sporadic strikes, there has been no mass unrest of the sort witnessed last winter in France.

Avoiding such unrest will be a priority in one of the thorniest tasks Mr Dehaene's government must undertake in coming months: reform of the social security system.

"If I slowed down and postponed certain reforms planned for the end of last year, that's exactly because I was convinced that, in the climate created by the French situation, if I had gone too fast I would have found the same situation [in Belgium]," he says.

But ballooning social security costs are putting a severe strain on the public purse and have brought calls from the Flemish half of the country, a net contributor to social security, for the system to be broken up along regional lines – something the federal government is anxious to avoid.

Mr Dehaene is now armed with special powers granted by parliament last summer to legislate on social security reforms by decree until next May, but says his approach will be realistic.

"I prefer the pragmatic approach, going step by step, which avoids breakdowns," he says.

"I don't believe in *La Réforme* of the system, with a capital L and a capital R. The social security system is so complicated, like a kind of spider's web touching all parts of society, that you have to modify it in successive stages."

He identifies two priorities for reform: pensions, and health assurance. He began tackling the former in the 1997 budget, launching a phased shift in the retirement age for women from 60 to 65 – the same as men. That was an EU requirement, but will also slow down the growth of pension costs.

The next challenge is to take a similar step in the public sector, which Mr Dehaene warns will be more sensitive. Progress on healthcare reform will also be a priority in coming months.

As in the justice system, Mr Dehaene has ambitions to introduce an advanced IT network, both within the social security system and to link it directly to enterprises.

As drawing up the 1997 budget is reported to have done, social security reform is bound to put strains on the four-party, centre-left coalition government. The francophone Socialist Party, in particular, has been unhappy with spending cuts, and some supporters have suggested it should leave the coalition.

But Mr Dehaene remains optimistic his delicately-balanced team can achieve lasting results.

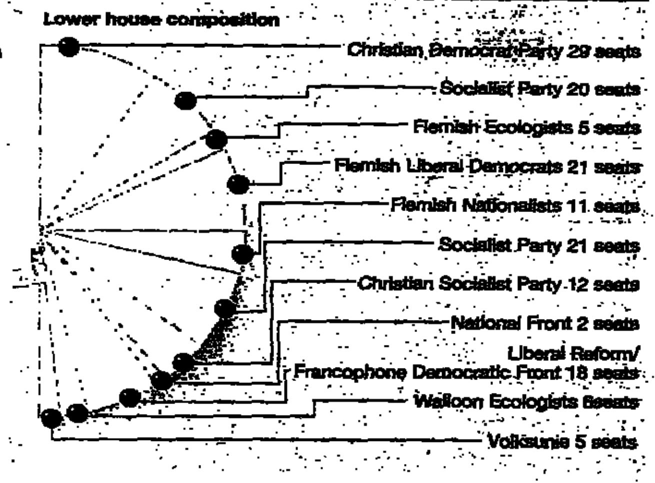
"This government and the previous coalition has proved that it can realise reforms," the premier says, quoting the partial privatisation of public enterprises such as Belgacom and Sabena, agreement with the unions on wage moderation, and reforms leading to the adoption of a more openly federal constitution in 1993.

"I am sure five years ago the majority of observers and *éditorialistes* would have said this Dehaene coalition could never have achieved as much as it has."

In the coming months, Mr Dehaene knows he must deliver tangible results, or risk seeing those *éditorialistes* write his political obituary.

Belgian federal parliament

Lower house composition



■ **Investment:** by Lionel Barber

A powerful magnetic field

Belgium needs to back its natural advantages with improved services and labour costs

Belgium's location at the heart of the single European market makes it a powerful magnet for foreign investment.

Riding on the back of a reputation for being one of the world's greatest trading nations, the Belgians offer first-class infrastructure, an adaptable, skilled labour force, and generally strong language skills.

But in the information age, a favourable geographical position is not enough to lure footloose multinationals or the friendly small-to-medium-sized business. Belgium must work harder for its share of overseas investment, and that means faster change in policies and services which foster business and job creation.

The federal government has set in train plans to create a new Federal Agency for Foreign Investors to guide outsiders through the maze of devolved government and the tax incentives on offer. But responsibility for foreign investment falls to Belgium's three regions: Flanders, Wallonia, and Brussels.

Flanders can call on Antwerp, Europe's second largest port, and a commercial tradition going back the wool trade in the Middle Ages. Nearby Ghent is home to the popular three-yearly Flanders technology fair, as well as the Volvo car assembly plant and Honda's distribution centre. Ghent is a gateway to other trading hubs such as Cologne, Lille, Paris, Rotterdam. It can also look forward to a connection to the future permanent Westerscheldt crossing linking the Dutch province of Zeeland to Calais.

Wallonia, with its legacy of heavy industry based around mining and steel, suffers slightly because of its image as "old Belgium". But the region's Office for Foreign Investment (OSI) can point to impressive votes of confidence from companies such as Dow Chemical and SmithKline Beecham which produces vaccines and is building a new worldwide distribution centre at Wavre industrial park, just outside Brussels.

Mr Frederic Hertogs, adviser to the minister president in Wallonia, cites four advantages to setting up business: proximity to Germany (German is the recognised official language along the province's eastern border); the coming high-speed train network linking Belgium with France and the Netherlands; cheaper-than-average land (ranging from BFr200 to BFr800 per sq m); and two all-cargo airports at Charleroi and Liège.

The latter aim to exploit the imposition of night curfews at bigger airports (including at Brussels Zaventem) which not only reflect big city environmental concerns but also the strain of coping with the growth of international passenger traffic.

What else is special about Belgium? One useful development occurred in 1994 when the federal government introduced laws which largely mirrored the highly favourable tax treatment of European-wide goods distribution centres in neighbouring Netherlands.

Last May, the Belgian government took the next logical step by extending this kind of privileged tax regime to "call centres" where staff can provide information, take orders, and solicit sales for business seeking to operate on a pan-European basis.

Advanced telecommunications are vital if these call centres are to catch up on the world of "teleworking" which shrinks distances and makes geography less important. Belgium's telecoms revolution is evolving. In 1995, Belgacom, the state utility, was partially privatised with new foreign partners – Singapore Telecom, Tele Danmark, and Ameritech.

Even more eye-catching, US West joined a consortium of Flemish cable TV companies and other investors to create a broad-band telecoms network for Flanders. The new service, Telenet, will convert the existing coaxial cable which links 95 per cent of homes and businesses into a broad-band network offering advanced business communications as well as entertainment services.

A call centre to take remote control of personal computers

Mr David Hamilton is managing director of System Management Partners (SMP), a Brussels-based call centre which can take remote control of personal computers whose users run into difficulties. Mr Hamilton, a spunky small businessman who has worked in Brussels for 10 years, says Belgium still lags in terms of labour flexibility and employment costs.

Mr Hamilton, who runs a similar operation in the UK, says he can hire a software engineer for £33,000 in the UK and pay an extra £3,000 in employment contributions.

In Belgium, the same worker earns the same basic salary, but an additional 40 per cent is piled on top in employment costs. In addition, the Belgian worker only takes £15,000 net compared to £22,000 for his British counterpart. "That starts to hurt motivation after a while," he says.

Though Belgian workers rank at the top of the European league in terms of productivity, their labour costs are also very high at around $26 an hour. Only Germany ($32) and Switzerland ($29) are higher. Sooner or later these cost differentials will tell against Belgium because companies can simply move to areas where employment costs are lower as in Britain where labour no longer expects a job for life.

In Belgium's favour, however, Mr Hamilton says that Belgian banks are more flexible and accessible than their British rivals and Brussels is still a superb location. Here is one British native who is still comfortable about being at the heart of Europe.

Privatisation: Belgacom and Sabena have both undergone the testing experiences of foreign investment and management

Trying on a different suit

t Belgacom's smart owntown Brussels offices a st of besuited managers, arketing strategists and wyers are stalking the orridors. The newcomers e a far cry from the public ctor civil servants that ed to run the company. ey are only one anifestation of the rapid anges that have taken ce at the ailing state ephone monopoly a year ce the Belgian vernment awarded a 49.9 cent stake to a US-led nsortium.

eaded by Ameritech, the nsortium also included gapore Telecom and Tele Danmark. Apart from providing Belgacom with much-needed capital, the new partners were charged with one main task: to turn Belgacom into a modern telecommunications establishment, able to deal with the fierce competition that is expected to sweep through Europe's telecoms sector, following full liberalisation in 1998.

The task was daunting. The new investors have just two years to turn around an inefficient, overmanned, bureaucratic state telephone monopoly for whom competition was, until recently, a dirty word.

Almost a year since the deal was signed, the new partnership appears to be working well, untroubled by the sort of union-led turbulence that greeted new foreign investors at Belgium's national airline, Sabena.

"This investment is performing very nicely and we are very pleased," says Mr Herbert Hriber, vice-president of Ameritech.

Officially Belgacom's management has not proposed job cuts and so far Belgacom's unions have been supportive of the new investors. But, they realise a large number of members will have to go, in spite of the fact that legally they are employed for life. The 27,000 workforce includes 8,000 non-core jobs such as cooks, and chauffeurs which serve to keep overhead costs extremely high.

"If it has been required that people leave their jobs at Ameritech, that has been voluntary and incentives have been used," says Mr Hriber.

Recently the company revised its growth forecasts for this year from an initial 5 per cent to 9 per cent, and appears to be reaping the benefits of offering new services such as voice-mail and call forwarding. International charges have been reduced and Belgacom's GSM subsidiary, Proximus, has also been a big success.

But the deal has not been without its cultural hiccoughs. "Belgacom has a history of doing what it wants to do and not listening to the customer," says Mr Hriber.

And in what Mr Hribar describes as a "fun" process, the American and Singaporean partners have had to come to grips with "European" business priorities. "In Europe there is a different order to priorities than there is in the US," explains Mr Hriber. "In the US the first priority when you address a deal is automatically the commercial aspect. It takes a long time for us to get used to the European order or priorities where the commercial aspect might be number six on the list."

And in spite of the successes, there are constraints. For all the smart new managers, the gulf between the company's Brussels headquarters and the antiquated local offices where patient customers still have to queue just to request a telephone connection, is enormous. The company might be facing in the right direction, but there is still a lot of work to be done before Belgacom hits the 1998 deadline.

Emma Tucker

Return to profit forecast

en Swissair bought 49.5 cent of Sabena, the ian national airline last , few analysts predicted asy ride for the Swiss pany. But after 18 iths of disputes and eaval it looks as if the t is over.

st month Mr Paul linger, the Swissair inted chairman of na, signed a landmark with the airline's riously pro-active ns which he believes allow the company to return to profit by 1998.

The deal was a personal victory for Mr Reutlinger, who had staked his reputation on the successful implementation of the so-called Horizon 98 plan, aimed at turning the company around without alienating the unions.

Massive disruptions at Brussels's Zaventem airport by striking employees had forced the resignation of his Belgian predecessor, Mr Pierre Godfroid. He had unilaterally suspended all collective job agreements in a desperate bid to bring the unprofitable carrier's cost structures into line with its competitors.

Agreement on Horizon 98 was also crucial in securing the long-term future of the Belgian airline. So high were the stakes, that Mr Reutlinger had to threaten the withdrawal by Swissair of its investment in Sabena, in order to clinch the cost-cutting deal.

During intense negotiations, Mr Reutlinger revealed that Swissair's board had given its executive committee the option of writing off its investment of SFr260m.

Swissair's investment in Sabena was always a risky venture, but walking away would have had difficult consequences for the Swiss company. Excluded from the EU's deregulated air market, it was desperate for a foothold. In particular, it wanted access to more and better airport slots and Brussels' Zaventem airport is one of the few in Europe that is not yet saturated.

The measures of Horizon 98 will now allow the company to save BFr2bn through reductions in wage costs between now and 1998. In addition management will come up with a further BFR2.7bn of savings by increasing efficiency.

The wage cuts will be gained through greater flexibility, a two-year wage freeze, job cuts, changes to working conditions, and internal transfers. Pilots, who were the last employees to agree on the package of measures, will be expected to raise their yearly flight hours to 650 from 625.

The Sabena management now intends to concentrate on a number of initiatives including an alliance with Virgin Express, the new no-frills airline, for co-operation on flights between Brussels and Britain. Last month, Virgin Express reached an outline agreement to take over lossmaking flights operated by Sabena on the Brussels-London route. Under it, Virgin is expected to reserve some seats for Sabena passengers and sell the rest through a telephone booking system for as little as £50 return.

ET

FORTIS DELIVERS A POWERFUL PERFORMANCE

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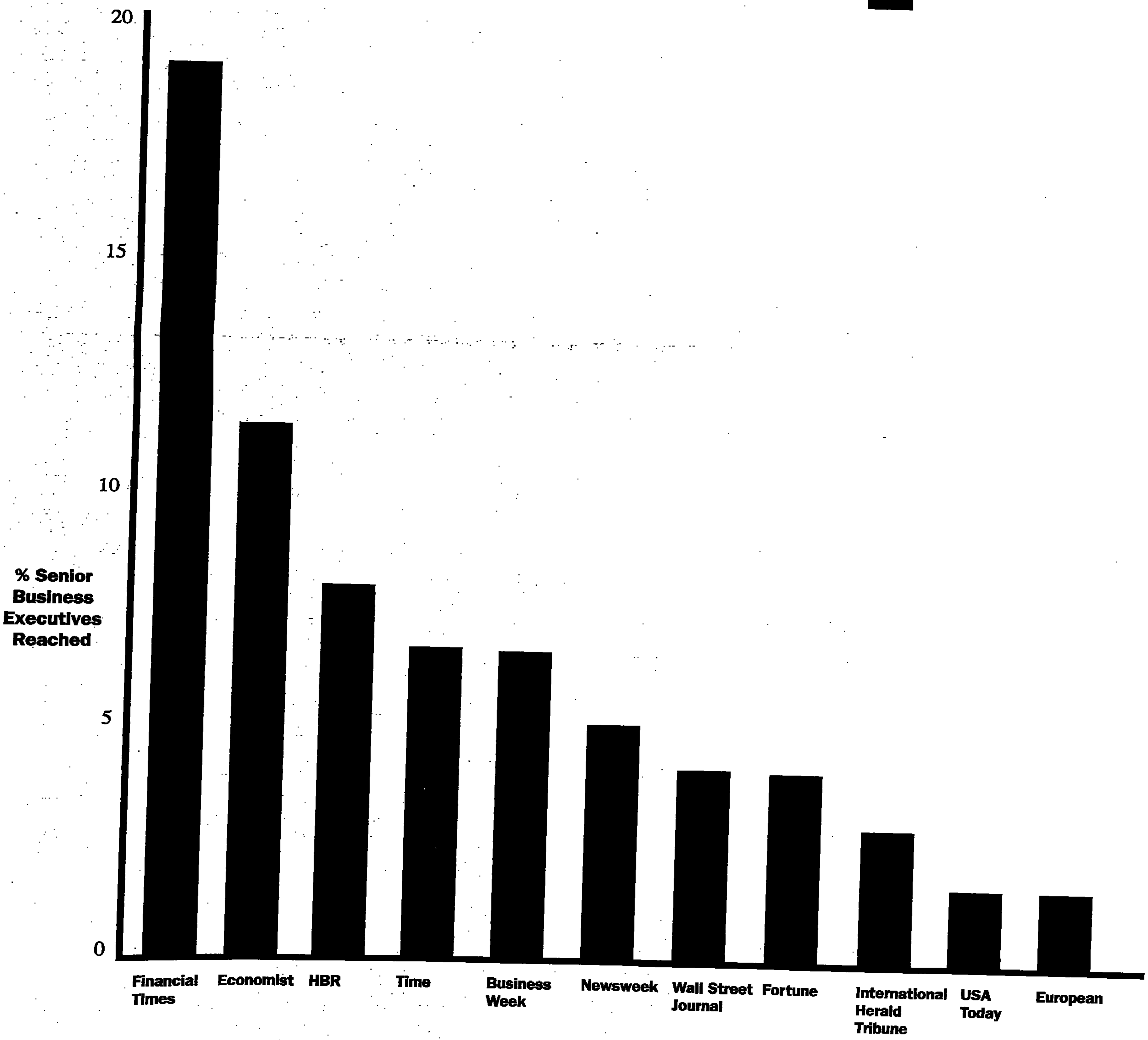


Source: EBRS 1996

Financial Times. World Business Newspaper.

Church-sponsored company will return larger profit share to growers in developing countries

Banana producers take on big traders

By Gordon Cramb in Rotterdam

European consumers are about to be offered a nibble at the politically correct banana.

Agrofair, a newly established Dutch company majority-owned by banana producers from developing countries, is putting the produce on sale from today in Dutch supermarkets. It is aiming for a 6 per cent market share and from next year plans to launch the brand, called Oké, elsewhere in Europe.

Oké bananas will cost the same as other brands but will yield their producers 40 per cent above the prices the big traders pay. The difference, the commodity traders' profit, goes towards improving wages, reducing pesticide use and investment.

The European Union is the world's biggest banana importer, taking 40 per cent of all shipments, or 3.7m tonnes a year, for a retail market worth around Fl 10bn ($5.9bn). The Brussels regime for regulating supplies is, however, among its most controversial, provoking fierce opposition from the US and Latin American producers, who have complained to the World Trade Organisation.

Agrofair was set up by Solidaridad, a Dutch church-based development organisation, after it found a way around the EU's complex system of quotas, licences, tariffs and duties by purchasing banana permits on the secondary market.

The EU provides preferential access for producers from EU territories some 70 former colonies in Africa, the Caribbean and Pacific and imported by European groups such as Fyffes.

They rival the "dollar bananas" shipped from Latin America, largely by US traders like Chiquita and Dole, and which have attracted a levy since the creation of the EU single market from 1994.

In Rotterdam, Mrs Anneke van Dok, the Dutch trade minister, received the first "fair trade bananas". They came from Ecuador, one of the WTO plaintiffs, and from Ghana, where plantation workers at Volta River Estates, the supplier, are to gain 25 per cent of their company's equity.

Banana plantations in the Dominican Republic and Costa Rica are also due to link with Agrofair, but expansion depends on its ability to secure import permissions beyond the initial licence brought from an unnamed French trading house. Nearly all quotas are based on market share established in previous years. This recourse to the thriving secondary market in banana permits was necessary because, according to Mr Nico Roozen, Solidaridad director general, new entrants are given "an average allocation of 40 tonnes a year – that is just one container". Agrofair plans to sell three times that amount per week in Dutch stores alone.

Car exporters accelerate their drive into Australia

Nikki Tait looks at the worries of the domestic manufacturers

Stuck in an Australian traffic jam, it it is obvious why the A$7bn (US$5.52bn) a year domestic car industry is worried. Wedged between locally made Ford Falcons and Mitsubishi Magnas are a wide range of imported models.

This is a new phenomenon. Until the mid-1980s, Australia's car industry was heavily protected by high tariffs and imports accounted for only 15 per cent of total car sales.

But in 1984, as Australia opened up its economy, these walls started to come down. The vehicle industry, covered by a special "car plan", enjoyed a slower rate of tariff reduction than general manufacturing. Even so, tariffs have declined from 57.5 per cent a decade ago to today's 25 per cent. The import share, meanwhile, has surged from 15.5 per cent in 1986 to 47 per cent in the nine months to September this year.

The question is whether the domestic industry is sustainable if this process continues. The car plan envisages a steady drop in tariffs to 2000, when they will stand at 15 per cent.

After that there are no commitments, but the Productivity Commission, a statutory body reporting to the federal government, is already reviewing post-2000 arrangements.

The Melbourne-based think-tank is due to release a draft report next month, with a final version due in mid-May.

Already the car industry players have been lobbying hard. For some, Australia's commitment to freer trade in this area has gone too far. Mitsubishi, one of four remaining car manufacturers, wants tariffs frozen at their existing level – 25 per cent – and remaining cuts under the current car plan to be postponed, for example.

"It is not in Australia's best interest to move to lower levels of assistance until other automotive-producing nations within Apec [Asia-Pacific Economic Co-operation forum] reduce their assistance regimes to levels comparable to Australia," it has told the commission.

Others are more relaxed. Ford Australia, the largest of the four, says it is willing to live with the remaining tariff reductions, but pleads for a five-year pause between 2000 and 2005, with a further review in 2000.

"We're really recognising the political facts of life," says Mr David Morgan, president.

"We recognise that the government is committed to going to 15 per cent by the year 2000, and most investment decisions have been made [on that basis].

"But we certainly don't state that 15 per cent is the most desirable level of tariffs. Going past 25 per cent will be difficult for us, because even at 25 per cent the industry is extremely competitive, and we've seen a very rapid growth in the level of imports."

Imports, 15.5% in 1986, hit 47% in the 9 months to September this year

A political plus to a position such as Ford's is that it is reasonably compatible with Australia's commitments under the "Bogor declaration" – the pledge made by Apec countries to move to free trade by 2010 (for the developed economies). Freezing an existing tariff reduction plan, on the other hand, could be tricky for a new federal government, which has yet to establish a track record on trade and industry policy matters.

But that does not deter Mitsubishi. Mr Rex Kelly, the company's manager of government affairs, says Australia is just one destination for investors and other countries are offering tremendous incentives. "Thailand and the Philippines are negotiating up to 10 years of tax-free relief."

This debate is taking place in a perilously small local market. While the car plan has encouraged greater manufacturing efficiency and prompted rationalisation of both models and makers over the past decade, it has done nothing to lift domestic demand. The Australian vehicle market peaked at 695,856 units in 1985. Last year it was 642,557 units.

"On population basis, it should be 800,000-plus a year," says Mr Morgan, drawing comparison with other developed economies. "So that would say that there are 150,000-200,000 vehicles a year that aren't being sold."

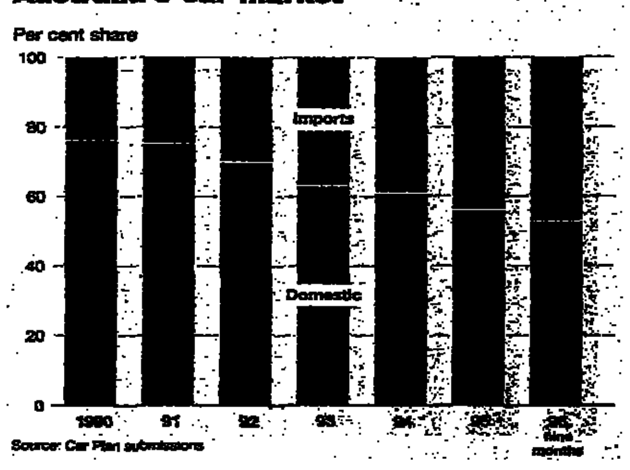
There are various explanations for this. Australians keep their cars a lot longer than Europeans, Japanese, or North Americans – a characteristic which probably owes something to a benign climate.

But price also plays a large part. The fall in tariffs has been little help, with real prices increasing significantly over the last decade. According to the Automotive Industry Authority, an employee on average weekly earnings had to work 33 weeks to afford a six-cylinder automatic saloon in 1984. By 1993 the figure was 41 weeks. Carmakers blame the high sales tax component. More objective observers cite exchange rate factors, production cost pressures, and demanding specifications.

But, in a small static market, the danger from imports is critical. Toyota, for example, thinks that imports could take a 60 per cent share by the year 2000. Ford is only slightly more sanguine: "We believe there will be a tailing-off [in the rate of growth]," says Mr Morgan, "but imports will still continue to grow."

Of particular concern are the Korean carmakers – Hyundai, Daewoo and, most recently, Kia – which have targeted Australia as their second biggest potential export market after North America. Since 1990 their share of the passenger car market has grown from 1.6 per cent to 16.3 per cent, predominantly through smaller models. Now the concern is that inroads may be made into the larger car market, where domestic manufacturers are still dominant.

Australia's car market



Source: Car Plan submissions

WORLD TRADE NEWS DIGEST

Enron signs Indonesia deal

A consortium led by Enron of the US has signed a 20-year power purchase agreement with Indonesia's state-owned electricity company, Perusahaan Listrik Negara, after more than a year of negotiations. The plant in east Java will sell electricity to PLN for $0.0576 per kilowatt hour.

Smaller private combined cycle plants in other parts of the country have finalised power purchase agreements with PLN at $0.067 and $0.0655 per kilowatt hour. The Enron consortium, called East Java Power Corp, is 50.1 per cent owned by Enron, Hong Kong's Price Holdings and Indonesian partner Pasuruan Power Company. Construction of the Pasuruan plant is expected to start in late 1997, and to come on stream in early 2000. Total investment for the project is estimated at $508m.

However, East Java Power Corp has not yet finalised the plant's fuel supply agreement although Enron officials said this would happen "very soon".

To date, the large private power projects agreed with PLN are mainly coal-fired, with most securing their coal from rich reserves on the Indonesian island of Kalimantan. *Manuela Saragosa, Jakarta*

Palestinian telecoms plan

The Palestinian Telecommunications Company (Paltel) plans to invest $600m over the next decade in developing telecommunications infrastructure in Palestinian self-rule areas. The company plans to increase the number of Palestinian customers from 85,000 to 250,000 in three years. It also plans to provide new services, including data communications, and to create a cellular phone network. Telecom services were previously provided through the Israeli civil administration in the occupied West Bank and Gaza Strip. Israeli-Palestinian interim peace accords laid the groundwork for transferring the sector to Palestinian hands. The Palestinian National Authority has awarded Paltel a licence to be the sole provider of all telecom services. *Avi Machlis, Jerusalem*

Brazil raises car parts tariff

Brazil, which has been criticised for its restrictions on vehicle imports, yesterday raised tariffs on imports of car components from 2.4 per cent to 4.8 per cent for this year, rising to 7.2 per cent in January and to 9.6 per cent in 1998. From 2000 the duty will increase to 16 per cent, equivalent to the common external tariff under the Mercosur customs union. The government said it wanted to encourage components companies to produce more parts in Brazil, rather than just assemble them.

Earlier this year several countries, led by Japan, complained to the World Trade Organisation after Brazil introduced a quota on vehicle imports and raised duties from 32 per cent to 70 per cent for manufacturers which do not operate in the country. The quota was later raised. *Geoff Dyer, São Paulo*

Libya awards water contract

Dong-ah Construction, one of South Korea's biggest construction companies, said yesterday it had been awarded the main contract for the $5.1bn third phase of Libya's Great Man-made River project. Dong-ah built the first two phases of the $9.7bn project, which delivers water from underground reservoirs in the Sahara to Libya's main cities and farms. *John Burton, Seoul*

IN THE HIGH COURT OF JUSTICE No. 005747 of 1996
CHANCERY DIVISION, COMPANIES COURT
IN THE MATTER OF FAIRBRIAR PROJECTS LIMITED
AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 6th November 1996 confirming the reduction of the capital of the above named Company from £40,000,000 to £6,720,677 and the Minute approved by the Court showing with respect to the capital as altered the several particulars required by the above mentioned Act were registered by the Registrar of Companies on 11th November 1996.

DATED this 19th day of November 1996
Wilde Sapte, 1 Fleet Place, LONDON EC4M 7WS
(Ref: MAW/672V39/CC129585.02)
Solicitors for the above named Company

IN THE MATTER OF SHAKEDOUBLE LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986

In accordance with rule 4.106 of the Insolvency Rules 1986 notice is hereby given that Ian Jacob and Nigel Ruddock of Robson Rhodes, 186 City Road, London EC1V 2NU were appointed Joint Liquidators of the above company by the members on 8 November 1996.

NOTICE IS HEREBY GIVEN that the creditors of the above named company are required on or before the 17th day of December 1996 to send their names and addresses, with particulars of their debts and claims to the undersigned Ian Jacob and Nigel Ruddock of Robson Rhodes, 186 City Road, London EC1V 2NU the joint liquidators of the company, and if so required by notice in writing from the Joint Liquidators either personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice and in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Note: This notice is purely formal and all creditors have been or should be paid in full.

Dated this 14th day of November 1996.

I JACOB and N RUDDOCK Joint Liquidators

هكذا من الاعلى

Clare Bellwood 0171 873 3234

BUSINESSES FOR SALE

Fax 0171 873 3064

Karl Loynton 0171 873 4874

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For further details, please contact the Joint Administrative Receiver Alan Lovett, Ernst & Young, Apex Plaza, Reading RG1 1YE. Telephone: 0118 950 0611. Fax: 0118 950 7744.

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BIRCHWOOD BOATS

In Administrative Receivership

The Joint Administrative Receivers of Birchwood Boat Company Limited and Birchwood Marine Limited, L. K. Denney and J. B. Atkinson, offer for sale the assets and undertaking of this famous name in power boat manufacturing.

- The business is located in freehold premises in North Nottinghamshire close to M1 and A38.
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- Mould tools for all ranges of boats.
- Approximate turnover for 1995/96 £3 million.

For further information contact Lindsay Denney or Sue Lewis at Deloitte & Touche, 1 Woodborough Road, Nottingham NG1 3FG. Tel: 0115 950 0511. Fax: 0115-959 0979.

Deloitte & Touche

Electronic Display Systems Business for Sale

The Joint Administrative Receivers, M D Rollings and A Lovett, offer for sale the business and assets of:

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- *leasehold premises*

For full details, contact: Mike Rollings at Ernst & Young, Wessex House, 19 Threefield Lane, Southampton SO14 3QB. Telephone: 01703 230230.

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For further information telephone John Bond, Enham Industries, 01264 345815

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0113-244 2066

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For further information, contact the Joint Administrative Receivers, Mick McLoughlin or Geoff Adams, KPMG, St Nicholas House, Park Row, Nottingham NG1 6FQ. Tel: 0115 935 3535. Fax: 0115 935 3500.

KPMG Corporate Recovery

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FOR SALE BY PRIVATE TREATY UNUSED

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- THREE horizontal walkway bridges.
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For further details contact R J Davies/P J Harriman

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Companhia de Eletricidade do Estado da Bahia - COELBA, will make the following bid: INTERNATIONAL BID 003/COELBA/96. OBJECT: SWITCHGEAR. RECEIPT OF PROPOSALS: BY 2:00 P.M. DECEMBER 19, 1996. COST OF PRINTED BID CONDITIONS: R$ 10.00 (TEN REALS). LOCATION FOR PURCHASE OF BID CONDITIONS, AND RECEIPT AND READING OF PROPOSALS: Av. Edgar Santos, 300, Block 1, Coelba Building, Street level, Salvador, Bahia, Brazil. BIDS AND CONTRACTS DEPARTMENT "DCL"

COELBA

SECRETARIA DE ENERGIA, TRANSPORTES E COMUNICAÇÕES

NOTICE OF AUCTION

Bankruptcy no. 54971 Srl "IMAC", Bankruptcy Court of Rome. At 12am on 16.1.97, the Official Receiver Dott. Maselli is to sell by auction, in a single lot with base price Lit.19,000,000,000, leading Italian company, still in business, producer of polimglass roofing panels and accessories (machinery, commercial activity etc.); provisional carrying on of business 30.6.96, with 29 employees plus 8 with "labour mobility" requested; CTU (technical) reports of 19.9.94, 6.12.95. Written offers (according to articles 4 and 5 of the sale procedure) with bank draft made out to Fall. 54971 deposit and expenses 30% of base price by 1 pm on the day prior to the hearing, minimum bid Lit. 200,000,000, the first of which obligatory; total of deposit and expenses to be paid 48 hours after adjudication, balance 60 days after adjudication, same payment methods. Information from receiver, +39/6/35403222, or the company, +39/6/66417145, Messrs. Bon, Urzia, Sarra. Official report from the Chancery. Company visits to be arranged 15 days prior to the auction.

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PUBLIC NOTICES

DEPARTMENT OF THE MARINE
Ireland

DEPARTMENT OF THE MARINE ROINN NA MARA

ASSESSMENT OF COSTS AND CHARGES AT COMMERCIAL SEAPORTS

The Department of the Marine invites proposals from suitably qualified consultants on the development of a methodology, its implementation and future data collection in the assessment of costs and charges at commercial seaports.

The European Union and the Irish Government are currently implementing the 1994-1999 Operational Programme for Transport which is a multi-mode transport investment programme partly financed with European Union funds. The investment projects covered include capacity improvements at Irish ports with explicit objectives including the reduction of user costs and improvements in service quality to shippers.

In order to assess the trends in user costs, it has been decided to commission consultants to prepare a report on the matter.

Proposals should be forwarded to the Department of the Marine before 12.00 noon on Monday, 9 December 1996.

Further information and terms of reference can be obtained from:

Commercial Harbours Division
Department of the Marine
Leeson Lane Dublin 2, Ireland
Tel: 353-1-678 5444 ext 290Fax: 353-1-661 8214

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Closing date for return of application forms: 9th December.

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Collapse of merchant bank has increased international co-operation

'Supervision better' after Barings

By John Gapper, Banking Editor

The collapse of the Barings merchant bank has led to improvements in the way the Bank of England supervises banks, and the degree of co-operation with supervisors in other countries, Mr Eddie George, the bank's governor, said yesterday. The Bank of England is the UK central bank.

"I cannot tell you it is easy or we will deliver 100 per cent, but it has got better over time," Mr George told the House of Commons Treasury committee. He faced hostile questions from members of the committee at a two-hour hearing.

Mr George said the bank's methods of supervision had been improved as a result of a review by Arthur Andersen, the consultancy firm, following Barings' collapse in 1995 from £830m of derivatives trading losses.

However, he said that he could give no guarantee that the central bank would prevent any future collapse. "We are in the process of sharpening up our act, but I cannot give you an assurance that we will always pick up everything," he said.

Mr George said that one of the biggest changes since the Barings collapse had been the degree to which banking supervisors in different countries were now co-operating. "I cannot pretend it is perfect. What we have got to get to is a situation where if any supervisor has a concern, it is natural for them to ring the relevant country, but that takes a long time and you have to know the people," he said.

Mr George said he did not believe it was right to combine supervision of banks and securities firms, despite convergence of the industries.

Mr George said that in practice, only a few banks in the US had expanded in securities operations to the point where they combined operations to a large extent. In most cases, the balance sheets of banks were still very distinct.

"I cannot say that [combination of banking and securities supervision] if you look far enough into the future, but there are still characteristics peculiar to banks," he said.

Mr George also defended Mr Andrew Tuckey, the former deputy chairman of Barings, and Mr Peter Norris, its former chief executive, against an accusation from Mr Brian Sedgemore, a Labour MP, that they had lied about the collapse.

However, Mr George said he did not believe that they knew what Mr Leeson had been doing.

Eddie George: could not give an assurance that the central bank would prevent any future collapse

Central bank to boost monitoring role

By Graham Bowley, Economics Staff

The Bank of England, the UK central bank, is to hire 70 graduates next year, double its normal annual intake, to bolster its banking supervision role following the collapse of Barings Bank last year.

The move aims to improve the central bank's ability to cope with banks' operations in complicated derivatives markets, an area growing in importance and a common cause of banking failure. The expansion follows an independent report this year by Arthur Andersen, the accountancy firm, which found the bank lacking in this area.

Following the Bank of England's own internal review, it has adopted a new risk-based approach to surveillance and supervision. It concentrates greater resources on those institutions most at risk and which require greater staffing numbers.

About 10 graduate recruits will be taken on in January, and all will work in banking supervision. A further 60 are to be taken on next September, 40 of whom will work in supervision. The Bank normally takes about 30 graduates each year.

More graduates will be taken on in subsequent years, although at a slower rate of increase. The Bank plans to increase staff levels on its supervisory side from about 300 to more than 400 in five years.

The recruits will receive a salary of £19,000 ($31,300) a year in line with starting salaries elsewhere in the Bank. The Treasury pays £14,000-£15,000 to fresh graduates.

The Bank of England is stepping up the number of staff who go on secondment to private sector banks to generate greater commercial awareness among central bank staff. A lack of commercial experience was seen as a key problem in the bank following the collapse of Barings and at present only a handful of staff go on secondments.

The Bank of England also intends to hire four high-level staff with long experience of financial markets, especially derivatives markets. These high-cost staff, so-called "grey panthers" within the Bank, would provide advice and act as a sounding board on complicated financial issues.

The bank has created a high-level position, in a so-called "quality assurance" role, to ensure that the bank's new regulation standards are being applied fairly across all the 500 or so institutions the bank supervises.

The Bank is also looking to recruit capital markets experts.

UK NEWS DIGEST

Tax move to lift bond sales

Proposals aimed at boosting sales of UK bonds to international investors were announced by the British government yesterday following pressure from London financial institutions. The proposals, which extend tax relief benefits and speed the procedure for claiming them, were warmly welcomed by the markets, with at least part of the ½ point rise in UK bonds known as gilts being attributed to the changes by bond traders in London.

Mr Simon Briscoe, a gilts specialist at Nikko bank in London, said the proposals were good news for institutions looking to sell gilts outside Britain. The government's original suggestions, made several months ago, fell short of market expectations. UK gilt marketmakers made fresh representations to the UK government, leading to yesterday's changes.

The latest proposals, prepared by the UK Inland Revenue, exempt overseas mutual funds and certain classes of non-UK pension funds from paying tax on the interest payments received from gilts and also streamline the system under which other overseas gilt holders receive interest payments without having tax deducted.

Richard Adams

Bond markets, Page 34

■ GOVERNMENT FINANCES

Borrowing target to be met

The Treasury yesterday moved to damp expectations of big tax cuts in next week's Budget, after official figures showed a startling improvement in the state of the government's finances. The government raised £4.4bn ($7.3bn) more in tax revenue than it spent last month, the Treasury said yesterday.

This net flow of money into the public sector's coffers was twice as big as City of London economists had expected and larger than in any other October on record.

Mr Kenneth Clarke, the chancellor of the exchequer, said the figures confirmed that he was on course to hit the £26.9bn forecast, which he published in July, for government borrowing during this financial year. Some City economists predicted that he would undershoot the forecast significantly.

Buoyant tax revenues were the main reason why the government's finances swung so sharply into the black. VAT receipts had been flattered by changes in the timing of big payments and corporation tax revenues by untypically high profits in the financial sector.

October's figures reduced the government's cumulative borrowing total in the first seven months of the financial year to £11.4bn, less than two-thirds the amount recorded in the same period last year.

Robert Chote

Editorial comment, Page 17; Lex, Page 18

■ POLITICS

Attack on plan for windfall tax

The governing Conservative party yesterday launched a renewed assault on the main opposition Labour party's plans for a windfall tax on profits of privatised utilities. It claimed that the measure could cost the equivalent of £192 for every telephone, gas, water and electricity customer.

Mr Brian Mawhinney, Conservative party chairman, admitted his calculation was crude, but challenged Labour to provide its own figures on how the tax would apply. The Conservatives aim to portray the windfall tax as a measure which will affect ordinary people, rather than simply hitting the balance sheets of wealthy utilities. Mr Mawhinney's figures were based on a Goldman Sachs projection of the burden of the tax if Labour aimed to raise £5bn.

George Parker

■ LONDON'S ECONOMY

Capital 'could be big EU state'

London would be the sixth biggest state in the European Union if it were a member of the EU in its own right, the London Chamber of Commerce said yesterday. It found that London's economy was bigger than those of South Africa, Saudia Arabia and Thailand, twice the size of Singapore and three and a half times that of the Republic of Ireland.

The aim of the report, said Sir Brian Jenkins, chamber president, was to dispel "the myth that London somehow is a drain on national resources". It claimed that Londoners paid £6.2bn ($10.2bn) more in tax than was spent by the government on the city.

Graham Bowley

■ URBAN TRANSPORT

Order for Italian company

Ansaldo Trasporti, the Italian state-controlled transport engineering group, yesterday said it had been awarded a L250bn order by the Greater Manchester Passenger Transport Authority to build and operate for 17 years a 7km extension of Manchester's metropolitan railway which will go into service in 1998. The line will run from Salford Quay to Broadway. Ansaldo will also operate the existing 31km line.

John Simkins, Milan

■ SCOTTISH FISHING

Wild salmon catch down by 8.5%

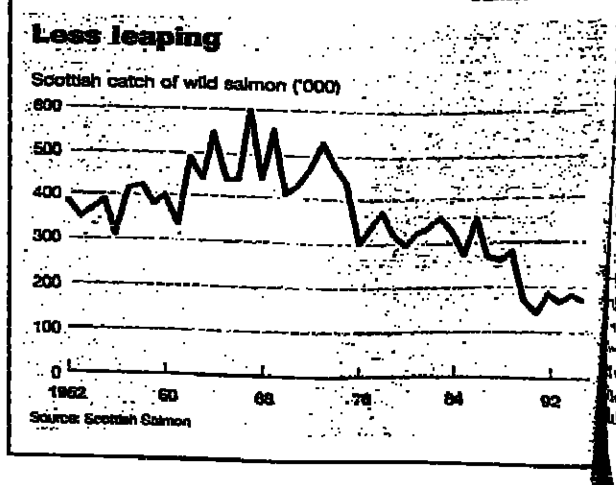
The number of wild salmon caught in Scotland fell by 8.5 per cent in 1995 compared with the previous year and was one of the lowest totals since 1952, according to the Scottish Office. Nearly 168,000 salmon and grilse – salmon which return after only one year at sea – were caught by anglers and netsmen last year, against more than 183,000 in 1994.

The weight of the catch was over 586,000 tonnes, compared with 644,000 tonnes the previous year, a fall of 9 per cent. Most salmon on the dinner table nowadays are not wild fish but are farmed by salmon farmers. Atlantic Salmon breed in rivers and then swim out to the ocean before returning to spawn.

The decline in salmon numbers in Scotland is a cause of concern to anglers, netsmen and to the businesses which cater to them. But the Scottish National Anglers Association points out that because of the low water caused by drought in the summer of 1995 many fish probably returned to the rivers outside the fishing season, which may make the catch figures misleading as a measure of the salmon stock.

The reasons for the longer term decline are hotly debated, with many people in Scotland blaming fishermen in the waters around Greenland for taking too many salmon.

James Buxton



Trade union support for Emu hardens

By Robert Taylor, Employment Editor

The Trades Union Congress is preparing to distance itself from the main opposition Labour party today by calling for the UK's full participation in a single European currency from its start. The TUC rejects the wait-and-see approach now favoured by Mr Tony Blair, the Labour party leader, as well as by the Conservative government.

Mr John Monks, the TUC general secretary, will argue in an address to the Federal Trust, a UK-based European think-tank, that Labour's refusal to adopt a position on the single currency before the next general election, which has to be held by May 1997, looks increasingly untenable. He believes Mr Blair's policy carries a serious risk of excluding the UK from the first tranche of EMU membership and making it much harder for the country to join later on favourable terms.

While Mr Monks accepts Labour's new call for a referendum over the issue, he will argue that any incoming government has only a short time to decide after the next general election what to do about EMU.

Mr Monks will argue that the position on the relationship between the pound and the European exchange rate mechanism will have to be resolved quickly after polling day in Britain. Any prolonged period of political uncertainty about UK intentions would lead to the country's exclusion from Emu.

Mr Monks will say UK participation in Emu would require legislation over membership and a probable referendum. It would also need legislation for the creation of a European independent central bank. All this would be required by the end of 1997.

It would also be necessary for the pound to return to the European exchange rate mechanism it left in November 1992 and for the Maastricht economic convergence criteria to be met. The TUC general secretary believes this is why the new UK government's attitude to Emu will have to be settled very soon after the 1997 general election. But he will also say today that it will therefore be impossible to avoid an open debate on Emu in the election campaign.

Mr Monks and other UK union leaders have been much more positive about UK participation in Emu than the Labour party for months. The TUC has hardened its support for UK Emu membership as Mr Blair has moved to a more sceptical position.

Today's speech underlines Mr Monks's determination not to be diverted by Labour's short-term tactics from reinforcing the TUC's full commitment to Emu.

'Alienation' of ethnic minorities is alleged

By Mark Suzman, Social Affairs Correspondent

Many companies are missing opportunities to win some of the $16.5bn that ethnic minorities spend in Britain every year because of misplaced marketing and advertising drives.

A study sponsored by some of the biggest companies in the country said yesterday that ethnic minorities were often alienated by big companies' marketing and advertising campaigns, many of which reinforced a sense of exclusion from mainstream society.

The research, for Race for Opportunity, a campaign promoting economic activity among minorities, indicates that advertisements are frequently misinterpreted or regarded as offensive.

The study was sponsored by Midland Bank, British Airways, British Telecommunications and the Lloyds/TSB banking group.

It said that people from all ethnic groups were still drawn to big-name brands such as Kellogg's and Cadbury as well as companies perceived to be "British" such as British Gas and British Telecommunications.

It suggested that this was part of a "fervent desire to be accepted, understood and integrated" into British life.

The study cited recent campaigns by Halifax building society, Guinness and First Direct as using nuances and references that are only properly understood by people fully integrated into British society.

The complete absence of ethnic minorities in many advertisements alienated minority groups by reinforcing the notion that they were not an integrated part of British society, the study found.

Several campaigns, such as Persil's television commercial in which a Dalmatian shakes off its black spots, were seen as "instantly and volubly offensive" by black consumers.

As a result of these problems, brand relationships tended to be more fragile for ethnic minorities than other consumers, and could also be exacerbated by perceived racism in customer service and product ranges.

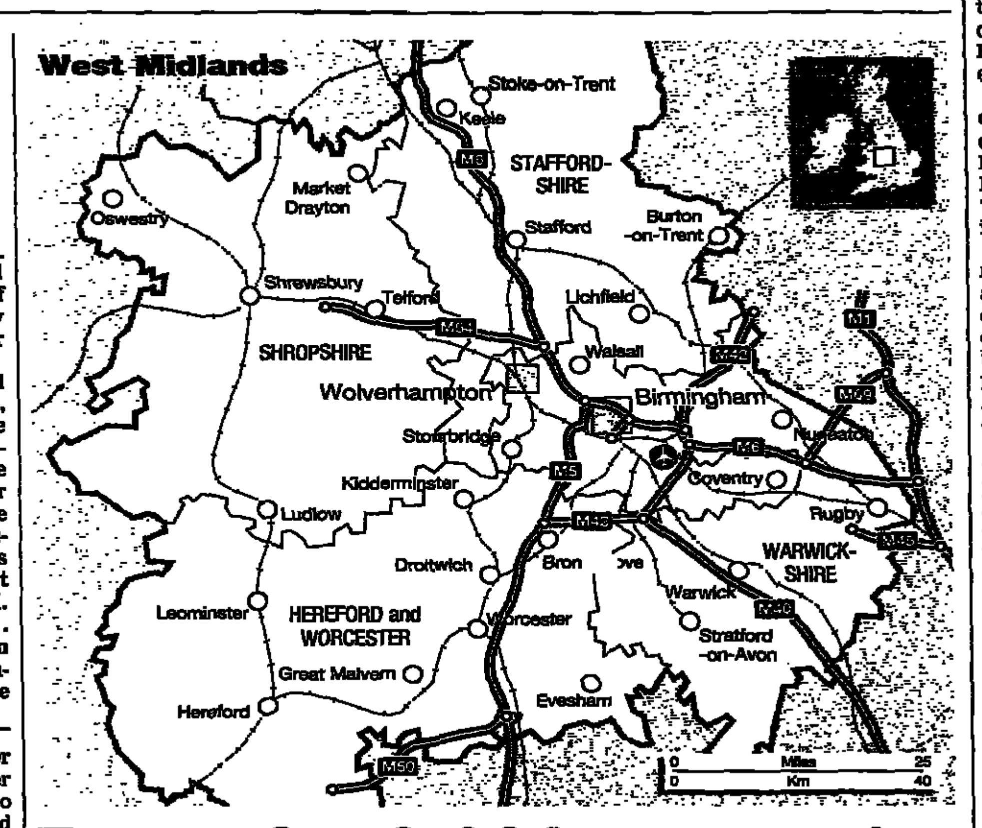
The research also found that the advertising messages reinforced the perception among minorities that they were not welcome as employees in big companies.

As a consequence, it says that minority children aspiring to professional careers will tend to concentrate on qualification-driven jobs such as accountancy, law and medicine, rather than managerial jobs, in which the chance of discrimination is regarded as being greater.

Black Caribbean men in Britain are half as likely as white men either to be high-ranking managers or professionals, or to be teaching professionals or to be employed in higher-status sales jobs, a report based on government figures stated yesterday, Andrew Bolger writes.

It reflected research commissioned by four organisations in the equal opportunities and educational fields – the African and Caribbean Finance Forum, the Foundation for Management Education, the Wainwright Trust and the Windsor Fellowship. They found that in no industrial sector was the proportion of managerial jobs held by Afro-Caribbeans greater than 0.5 per cent.

"This cannot be attributed to inadequate qualifications, since Afro-Caribbeans are more likely to have qualifications than white people [36 per cent against 31 per cent], and they tend to have the sort of vocational qualifications which employers generally hold to be most relevant," the report said. "Even where they have... degrees, Afro-Caribbean men tend to hold lower status jobs than their white counterparts."



Boost for 3,000 companies

By Richard Wolffe in Birmingham

More than 3,000 small and medium-sized companies are the target of a project to raise standards in the UK's industrial heartland.

The three-year scheme was yesterday awarded £1.8m ($3m) of government funding to improve the productivity and quality of small manufacturers in the English west Midlands. The scheme relies on a network of big companies to lift the performance of smaller ones by analysing their production processes and teaching best practice.

The 3,000 companies represent the core of the supply chain in the region. They will be selected after an assessment of about 6,000 manufacturers.

A government-backed report on the region said in July that poor innovation and investment threatened to undermine the competitiveness of manufacturers in the west Midlands, whose productivity lags behind every other UK region except Northern Ireland.

A pilot scheme of 25 companies was launched by Rover, the car producer, and Wagon Industrial, the engineering group, last year. The programme aims to reduce levels of working capital, improve quality standards and raise productivity as measured by sales per employee.

Harmonised bond markets gain favour

Onset of euro triggers debate on eliminating old anomalies

Bankers are pressing governments to use the introduction of the euro, the proposed single currency, to overhaul Europe's $3000bn-plus government bond markets.

"The euro gives us an opportunity to start with a clean sheet," said Ms Marie Bloem, bond strategist at Paribas, the French bank. "We would like to create the ideal bond market."

Last week, leading bond market practitioners from across Europe met in London – the continent's biggest centre for bond trading – under the aegis of the European Federation of Financial Analyst Societies, a society of bond market analysts.

They discussed whether the benefits of harmonising European markets would outweigh the costs, and now want to draw up a "wish list" which would remove centuries-old anomalies from the European debt markets. They also want to introduce standard practices across the European markets to make them clearer and to make trading more efficient.

At present, individual markets are denominated in different currencies and have different traditions – features which often deter investors from switching readily between markets.

At issue is whether all countries should introduce standard practices on how the yield on bonds is calculated, when they pay interest and how they are treated for tax purposes. Another issue is whether governments should issue bonds according to a strict calendar.

In the UK, the debate centres on whether Britain should standardise the UK government bond, or gilts, market, even if the UK is outside European monetary union.

Opinion in the UK is divided. Mr Rodney Offer at SBC Warburg, the London-based investment bank, said: "Emu is putting enormous pressure on financial institutions and market participants to make changes. Our own view is that the ability to anticipate adjustments to one's modus operandi well in advance will be of key importance whether the UK is in or out."

But others are resisting reform since they doubt whether standards agreed upon by potential Emu member countries would be an improvement on the UK's current practices.

An added complication is that, by moving towards European conventions, the UK risks moving away from the US market – which follows similar conventions to the UK – and therefore risks alienating US investors.

Mr Peter Moore, head of UK fixed interest at AMP Asset Management, the fund management arm of Australian Mutual Provident, said: "The big issue is do we adopt a common system? The general assumption is let's change as little as possible. Most of us believe there is no great need to change our way of doing it, because already it fits in better with the US way of doing it."

Mr Moore said that the gilts market had been undergoing a series of changes, including the introduction of the open market in gilts sale and repurchase agreements this year, and the gilts strips market planned for next year.

"We have gone through a lot of changes and the Gemms [gilt marketmakers] are not making a lot of money. We and the Bank do not want to impose extra costs and change on the industry," he said.

Graham Bowley

LAW

Working time challenge fails

EUROPEAN COURT

The UK government last week lost its challenge to the legality of the European working time directive. The European Court of Justice ruled that the directive had been properly adopted as a health and safety measure, upholding the UK's challenge only on the requirement that the minimum weekly rest period must in principle include Sunday. That part of the directive was annulled.

The UK's challenge relied on four pleas which alleged that the legal base of the directive was defective; breach of the principle of proportionality; misuse of powers; and infringement of procedural requirements.

The main plea rested on the contention that it should have been adopted under article 100 or article 235 of the Treaty of Rome, both of which required unanimity within the Council of Ministers, and not under article 118a, which did not.

Article 118a concerns EU internal legislative competence in social policy. Article 100 covers provisions relating to workers' rights and interests. The UK argued that it provided the proper legal base for the directive.

The court observed that the choice of legal base for a measure had to be based on objective factors which were amenable to judicial review, and that those factors included, in particular, the aim and content of the measure.

However, having noted that the directive constituted a practical contribution towards creating the social dimension of the internal market, the court said it did not follow from the fact the directive fell within the scope of EU social policy that it could not properly be based on article 118a, provided it contributed to encouraging improvements in respect of the health and safety of workers.

The court said although it could not be excluded that the directive might affect employment, that was clearly not its essential objective.

However, the council had failed to explain why Sunday was more closely associated with the health and safety of workers than any other day of the week.

The UK also argued that the directive breached the principle of proportionality in that it went beyond the minimum requirements permitted under article 118a. The court said that in order to establish whether a provision of European law complied with that principle, it had to be ascertained whether the means which it employed were suitable for the purpose of achieving the desired objective and whether they went beyond what was necessary to achieve it.

The court also said that in judicially reviewing those conditions, the Council had to be allowed a wide discretion in an area which involved the legislature in making social policy choices and required it to carry out complex assessments.

Judicial review of that discretion therefore had to be limited to examining whether it had been vitiated by manifest error or misuse of powers, or whether the institution concerned had manifestly exceeded the limits of its discretion.

The court concluded that the objective of harmonising national legislation on the health and safety of workers, while maintaining the improvements made, could not be achieved by measures less restrictive than those in the directive and therefore the council had not committed any manifest error.

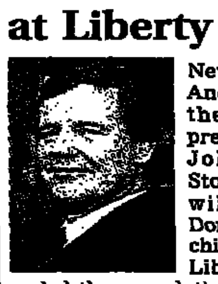
The court also dismissed the UK's pleas of misuse of powers and of infringement of procedural requirements. Article 118a did not require scientific proof for every measure adopted, and therefore the directive was not inadequately or defectively reasoned.

C-84/94: UK v Council, ECJ FC, November 12 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Andersen lands at Liberty Life



News that Roy Andersen (left), the outgoing president of the Johannesburg Stock Exchange, will succeed Donny Gordon as chief executive of Liberty Life has ended the speculation surrounding two of the most talked about careers in South Africa.

Gordon, the 66-year-old founder of Liberty Life, says it will take "a few years" to hand over the reins, after which he will stay on as non-executive chairman. He will be a tough act to follow: in just over four decades, the insurance group has grown into South Africa's fifth largest equity investor, with extensive overseas interests.

The appointment solves the mystery over the succession at Liberty Life, and resolves the question of a future career for the JSE president, who steps down from his current post in February.

Andersen, 48, is the architect of this year's Johannesburg "big bang", which replaced the traditional open-outcry system with screen-based electronic trading at the 108-year-old bourse. The reforms wiped out the cosy conditions long enjoyed by local firms, by allowing banks and foreign brokers to trade as principals for the first time. Commissions on routine transactions have fallen by half.

A chartered accountant, Andersen qualified with Ernst and Young in 1972, rising to become chairman in 1988. He was appointed JSE president in 1992 and last month stepped down as chairman of the African Stock Exchanges Association. He joins Liberty on April 1.

Mark Ashurst, Johannesburg

Mohawk banker

Ron Jamieson, a Mohawk Indian from Six Nations of the Grand River in Ontario, is making the Bank of Montreal the pace-setter in providing financial services and banking jobs in Canada's native communities.

Jamieson, who has extensive experience in financial services and economic development in these communities, joined the bank in 1992 as vice-president, aboriginal banking. Now he has been promoted to senior vice-president status as the bank expands its commitment to native peoples.

Bank of Montreal prides itself on being "banker to Canada's first peoples" and is a significant employer. It has set up a native business leaders advisory group, developed training programmes and raised the number of aboriginal employees to almost 1.5 per cent of its payroll.

The bank has 11 branch operations on reserves across Canada and three serving Inuit communities in the Arctic.

"The aboriginal peoples are a growing market segment and the real beneficiaries of the banks programmes are the native peoples themselves," said Jamieson. "We offer advice and business expertise and we are keenly interested in the economic development of all these communities."

Robert Gibbens, Montreal

SBC Warburg hires

SBC Warburg has made its first top-level appointment since the Swiss Bank Corporation takeover of S.G. Warburg in July 1995 by making Luqman Arnold, the head of business development at Banque Paribas, chairman of its Asia Pacific business.

Arnold, 46, worked for Credit Suisse First Boston in Japan and Asia Pacific during the 1980s, and knows Hans de Gier, SBC Warburg's executive chairman, from their former days working opposite other in the eurobond market.

Arnold replaces Rodney Ward as SBC Warburg's head in Asia. Ward will return to London to become chairman of the company for emerging Europe, Middle East and Africa. Arnold is also joining the SBC Warburg executive board.

De Gier said that he had tried to recruit Arnold before he joined Paribas in 1993 to become global head of its investment banking arm. "I tried to get him, and then took my eye off the ball, but I was tenacious," he said.

Luqman Arnold is replaced at Banque Paribas by Bernard Allorent, 52, who is currently head of business development for Europe, the Middle East and Africa. A graduate of France's Ecole Nationale d'Administration, Allorent joined the bank in October 1981 after spending 11 years with Chase Manhatten Bank in Paris and New York. *John Gapper, London*

Luzón for Santander

Francisco Luzón, the former chairman of Argentaria, is to join Banco Santander, Spain's biggest banking group, as an executive vice-president and a member of its board. Luzón, who will have special responsibility for strategy, communications and investor relations, will report directly to Emilio Botín, Santander's chairman.

The appointment comes as a surprise to observers of the banking scene, as Spanish banks in general and Santander in particular are not prone to bringing in outsiders to the top level of their decision making teams. It suggests that Santander has identified an increasing need to focus on its strategic development and strengthen its information flow to the markets.

Luzon, 48, was the founding chairman of Argentaria, which was created in 1989 through the merger of state-owned banks, and he oversaw the privatisation of 75 per cent of its equity. Brought into Argentaria from Banco Bilbao Vizcaya by the previous Socialist government, he was abruptly dismissed the centre-right Popular party government after it took power in May.

Tom Burns, Madrid

ON THE MOVE

■ Grigory Marchenko, deputy chairman of the Kazakhstan central bank, has been appointed chairman of the National Securities Commission. He will both oversee the government securities market, which he helped launch at the central bank, and help develop the embryonic equities market.

■ Staffan Akerman rises to vice-president of the GATES RUBBER industrial hose and connector division. Akerman, 51, has been with the US tyre giant since 1991, as director of industrial marketing in the power transmission division. He succeeds Tony Roberts, who has gone to Goodyear.

■ Driss Bencheikh, formerly with Maroc Inter Titres stockbrokers, replaces Abderrazak Laraki as managing director of the CASABLANCA STOCK EXCHANGE.

■ Chris Jones, 41 – previously co-president – succeeds Burt Manning as chief executive of J. WALTER THOMPSON WORLDWIDE from January 1. Manning remains chairman of the J. Walter Thompson Company, and Peter Schweitzer president of the global agency.

■ Leo Denlea hands over as chief executive of FARMERS INSURANCE GROUP of the US to Martin Feinstein, 48, a 27-year group veteran, on January 1. Denlea will remain chairman until his retirement at age 65 next March. James MacKinnon, 61, becomes executive vice-president, insurance operations, and Keitha Schofield, 45, executive vice-president, support services.

■ COVANCE, the pharmaceutical business due to be spun off from Corning of the US, has named three corporate vice-presidents: Mark Engelhart, marketing and sales; William Klitgaard, treasurer; and Parag Bhansali, investor relations. Engelhart joined the company in January from Abbott Laboratories. Klitgaard was previously treasurer of Kenetech and Bhansali formerly worked for CIGNA Corporation.

■ Thomas Palmer, 57, adds company secretary to his duties as vice-president and general counsel of MEAD CORPORATION, a US forest products company. He succeeds George Maly.

■ Hiroshi Matsumoto has resigned from the board of NATIONAL STEEL CORPORATION of the US, where he has served since June 1994. He previously spent 18 years with NKK of Japan.

■ Robert Noorigan joins CANADIAN NATIONAL, the country's biggest railway, from Southern Pacific Railway as vice-president, investor relations.

■ Sebastian Arrastia, president of Philippine National Construction Corp., has been appointed president of NORTH LUZON RAILWAYS, a $2bn rapid mass railway system project.

■ James Madden, is retiring as president of COMMERCIAL UNION LIFE INSURANCE of America. He is succeeded by Hans Carstensen III, who also becomes chief executive.

■ Canada's MIRAMAR MINING has appointed Brian Labadie as senior vice-president, operations.

■ Frank Erbrick is retiring as senior vice-president responsible for information technology at UPS, the package distribution company. He is succeeded by Ken Lacy.

■ Mary Alice Taylor, FEDERAL EXPRESS senior vice-president – US and Canada, is resigning to join CITICORP in January 1997.

■ Yves Couillard, 49, succeeds the long-serving Kleber Beauvillain as chairman of HEWLETT-PACKARD FRANCE.

■ Norbert Kaesbeck, 54, becomes a full board member at COMMERZBANK on December 1. He has been a deputy board member since the beginning of 1996.

■ Daniel Doo Shek-hoi, 53, has resigned as a director of SOUTH CHINA MORNING POST (HOLDINGS) of Hong Kong in order to retire to Sydney. Rayner Cheung, 32, joins the board.

■ Jose Raul Perez, 34, becomes vice-president, READER'S DIGEST MUSIC.

■ Richard Leblanc – previously vice-president, production – has been appointed acting president and chief executive of Sidbec-Dosco (ISPAT), the Canadian steelmaker. He succeeds John LeBoutillier, who has resigned.

■ Paul Oneile becomes president of UNITED INTERNATIONAL PICTURES, the film distribution company which is a joint venture of MCA, Metro-Goldwyn-Mayer and Paramount Pictures. He succeeds Michael Williams-Jones.

■ Chris McGurk joins MCA MOTION PICTURE GROUP in the new role of chief operating officer. He was most recently president of Walt Disney Studios' motion pictures group.

■ Kelly Welsh succeeds Thomas Hester as executive vice-president and general counsel at AMERITECH, the US telecoms group, on December 1. Hester remains an executive vice-president until his retirement on January 31.

■ Pino Ferrara has been named general manager of the London branch of BANCA POPOLARE DI NOVARA, replacing Sergio Gattinara.

■ Anand Srinivasan becomes managing director and head of risk management for Asia-Pacific at the CANADIAN IMPERIAL BANK OF COMMERCE, based in Singapore.

■ Paul Close joins HEINEKEN as logistics director of Nigerian Breweries.

■ Keith Bezanson, director of Canada's International Development Research Centre, is the new director of the INSTITUTE OF DEVELOPMENT STUDIES at the UK's Sussex University. He succeeds Professor John Toye.

■ Ann Fudge, president of Maxwell House and executive vice-president of Kraft Foods, joins the board of the FEDERAL RESERVE BANK OF NEW YORK as a Class B director.

■ Gerhard Praschak, an executive board member of Austria's Oesterreichische Kontrollbank, succeeds Soledad Abad Rico as president of the International Union of Credit and Investment Insurers.

■ Jonathan Lash, president of the World Resources Institute, joins DOW CHEMICAL's environment advisory council.

■ Donald Mazankowski – a former Canadian deputy prime minister – joins the board of POWER CORPORATION OF CANADA.

■ Stephen Letwin, senior vice-president of TRANSCANADA PIPELINES, is moving to Houston to expand TransCanada's presence in the US. He retains his current responsibilities for Canadian operations.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

TECHNOLOGY

Sirens on the line

Andrew Baxter on a warning system using the phone network

"THIS MODEL INFLATES INTO A LIFE RAFT."

The plaintive wail of the air-raid siren is rarely heard in peacetime, and when it comes to warning people about emergencies the siren is distinctly out of tune with modern times.

Sirens are inflexible, maintaining them is expensive, and there is no guarantee that people will hear them. "Greater use of double glazing and increased noise inside the home from TVs and stereos diminish the effectiveness of sirens," says Roy Eaton, head of telecommunications at the UK Home Office's emergency planning division.

With the end of the Cold War, the UK air-raid siren network has largely been decommissioned. But emergency organisations around the country wanted a replacement that would cover all the life-threatening events that they have to cope with today – such as chemical spills, floods or hostage-taking incidents.

A potential solution, a national warning system using the public telephone network instead of sirens, was unveiled in London yesterday. The prototype is thought to be the first such system to be successfully demonstrated.

With around 90 per cent of the UK's domestic, commercial and industrial premises on the telephone, the Home Office thought it might be possible to devise an emergency warning system based on the telephone network. It also believed there was potential to improve the information service to the public after a serious incident, when anxious friends and relatives are seeking information.

Early this year it asked Tallis Consultancy, BT's consulting arm, to investigate how this could be done. The result, says Tony Brown, senior principal consultant at Tallis, is "no real rocket science, but a combination of relatively new technologies to provide a unique service".

The prototype system makes use of digitised Ordnance Survey maps displayed on a personal computer screen, which would enable an operator to zoom into a specific area and draw a radius or plume around an incident. A message is recorded, selected from a pre-recorded list or typed into the PC for conversion into speech by BT's Interactive Speech Application Platform.

This large computer system, based at BT Laboratories, near Ipswich, can also initiate calls to numbers in the designated area, obtained by interrogating a national database of telephone numbers. Recipients acknowledge the call by using the keypad or speech recognition, and the system provides a continuous update on acknowledged calls, engaged tones, or calls that have been answered but not properly acknowledged.

A well-maintained national database of telephone numbers is fundamental to the success of the system, says *Beatriz Butsana-Sita, Tallis* senior consultant. BT has all its customers' numbers on a national database, and also maintains a separate database, used for emergency purposes, which includes ex-directory numbers and those from other telephone and cable companies.

The system is not intended for a general nationwide alert, when using TV or radio would be more effective. But it does have advantages for handling local emergencies anywhere in the UK, says Brown. As such, it differs from existing PC-based systems used for coastal flood warnings.

One person could initiate or monitor thousands of calls from a PC on one telephone line, says Brown. Tallis estimates that about 1,000 people could be reached in five minutes. Calling a town of 75,000 people might take 45 minutes, although this would depend on the time of day and the capacity of local exchanges.

Police forces, which would be the main users of such a system, could target individual streets or send out a range of messages for different areas around an incident. They could even initiate the process from a laptop at the scene of an incident.

Tallis will be submitting a final report in the next few days to the Home Office, which says it is evaluating the system. Developing it for use at county or police force level could cost about £1.5m, says Brown, but the cost of replicating it would be small.

Kim Thomas on the personal computer applications of eye-tracking systems

Hands-off approach to on-screen working

You switch on your computer and decide to launch the word processor. You find the icon on your screen, give it a good hard stare, and it starts. No keyboard, no mouse and, above all, no hands. It seems implausible – but US companies such as Iscan and Applied Science Laboratories are already making it a reality.

It is all done with eye-tracking hardware, a sophisticated technology which works by pointing an infra-red light at the user's eye. An infra-red-sensitive video camera, attached to the computer, records the pupil image. A digital image processor inside the computer then converts the information into a set of vertical, horizontal and depth co-ordinates.

The technology has been around a surprisingly long time. Researchers first started looking at the potential of eye-tracking 40 years ago, but until recently its main use has been in academic and commercial research.

Carmakers, for example, use it to work out the most effective way of laying out their dashboards; pharmaceutical companies use it to measure pupil dilation in response to certain drugs; software designers use it to see how quickly a user's eyes find features on the screen, such as the help button.

It has always seemed much less likely, however, that eye-tracking could have a serious business use. The problems with using eye movements to interact with a computer are myriad.

As John Flannery, vice-president for marketing at Applied Science Laboratories, puts it: "It means treating the user's eyes as a visual mouse. You *have to* be careful; if you blink to click the mouse, what happens if you blink accidentally? Or if you start an application by staring at it, you might stare at it simply because your mind is wandering."

Problems with using eyes to interact with a computer are myriad

Nonetheless, enough progress has been made to allow limited human-computer interaction. The main users are severely disabled people who, simply by looking at a computer screen, can carry out activities such as turning on the light, shutting the door or dialling the telephone. Users can also "type" very slowly by looking at letters on the screen.

For able-bodied computer users, the advantages are mainly to do with speed; as Ricki Razdan, president of Iscan, explains: "There's no clicking and dragging; you just have to look at a particular area of the screen." Razdan is confident that the commercial applications of eye-tracking will grow, particularly with mouse-intensive computer activities, such as video games.

There is no doubt that the technology has improved in recent years. Headsets and bite-bars (to stop users' heads moving) are a thing of the past. The hardware has also become much cheaper, and therefore more accessible to a wider range of people – the cheapest systems cost \$10,000 to \$20,000.

The other main improvement, according to John Flannery, has been in size: "Eye-tracking used to take a computer the size of a refrigerator; now you can do it with a personal computer."

Impressive as eye-tracking is, it is still hard to imagine it becoming a normal part of the average PC user's experience. Starting the wordprocessor with your eyes is one thing; selecting a menu item is quite another.

And for those of us incapable of using a computer without staring idly at the screen for minutes on end, it looks as if we are going to be stuck with the traditional mouse and keyboard – and the risk of repetitive strain injury – for a little while yet.

A step towards an economic small car

Motor industry observers disappointed that Ford's recently-launched Ka small car offered no technology breakthroughs to match its radical styling, might be more impressed by a "concept" evolution of the vehicle.

Just unveiled by Ford, the Ka Step 1 provides pointers to its future potential in terms of weight reduction and fuel economy gains.

Thanks to improved aerodynamics, the use of lightweight materials reducing its weight by one-third to 610kg, a prototype three-cylinder turbocharged diesel engine and low-rolling resistance tyres, the concept car is said by Ford to have achieved 90 miles a gallon on the rigorous new EU fuel consumption test cycle.

That is nearly twice as good as the showroom version which went on sale towards the end of October. The trouble is, as Richard Parry-Jones, vice-president of Ford's global small/medium vehicle centre admits, in Step 1 form Ka "would not be affordable to most people, and we could sell in only a very limited volume".

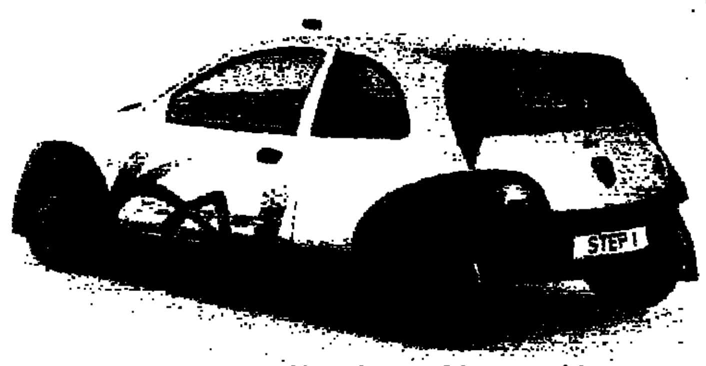
Mostly, this is because of the manner in which a 250kg weight saving over the standard model has been achieved. Doors, bonnet, tailgate, bumpers, spoilers and wheel shrouds are all carbon fibre mouldings – far too difficult and expensive for volume production. The back axle and brake discs are of aluminium.

However, the engine also incorporates weight-saving technology, using an aluminium cylinder head and an advanced electronically-controlled injector pump to achieve high power output for its size.

Ford intends to use the Step 1 prototype to study how materials – such as thin, high-strength steels – and processes might be employed to arrive at a next-generation Ka model substantially more economical than the current version without undue extra cost.

"One of the key challenges is to find the ideal balance between low fuel economy and affordability for customers," says Ford.

John Griffiths



Forward gear: the Ka Step 1 provides pointers to future potential

Modernist Cornish connection

William Packer reviews Christopher Wood in St Ives

The Tate Gallery at St Ives in Cornwall is now some three years old and has clearly been learning on its feet. Plans were laid at the outset and assumptions made as to just what to show and how best to deploy it in the fine but small new galleries. But plans do not always work out quite as expected, and it soon became clear that the St Ives School of Modern British Art – that is Hepworth, Nicholson, Heron, Frost and Hilton and their chums – was not on its own enough to sustain an indefinite programme.

The broader context, as the public, with its innocent expectation of at least the odd Bacon or Picasso, has apparently been pointing out, is everything. The first thing then to say of this latest exhibition, centred upon Christopher Wood and his work in Cornwall and Brittany in the later 1920s, is that it is the first to make use of the principal galleries in a fully integrated and coherent way. It is not a large show – how could it be? – but for once at St Ives it is as substantial as it is succinct.

If the famous encounter of Wood and Ben Nicholson with the ancient mariner-turned-painter, Alfred Wallis, in Back Road West in the summer of 1928, is generally accounted a turning-point in the story of British modernism, the first room immediately shows there was more to it than that. For here are Wood's English peers to set the wider context of a modernism already well-established and of which he too was part – not just Nicholson but Nicholson's first wife Winifred, Frances Hodgkins and Cedric Morris, and the sculptors Moore, Dobson and Barbara Hepworth. Just as it is easy to over-play the importance of Wallis, that of Winifred Nicholson, with her gentle near-mysticism, has perhaps been under-recognised.

But Wood was not simply an artist formed in England. He had had no formal training, but instead had gone straight to Paris in 1921, at the age of 20, and by the mid-1920s was the intimate of a significant circle of artists in France, including Cocteau and Bérard, and represented here by Braque, Pierre de Belay and Max Jacob. Wood's portrait of Jacob (1929), the painter-poet whom Picasso in 1944 was unable, or unwilling, to save from fatal internment, is one of the strongest works, and the most poignant and unexpected.

The heart of the show, Wood's own work, is for the most part the product of the last two years of his life, for this is not properly a retrospective. Most indeed is from the last year he spent around Tréboul, Concarneau and Douarnenez in Cornouaille, in the far west of Brittany. The Cornish relation in the work is self-evident, with the towns and harbours often to be distinguished as French or English only by a Breton bonnet or the the letters on a boat: PZ for Penzance, DZ for Douarnenez.

Sheer creative energy: 'Church at Tréboul', 1930, by Christopher Wood

And what comes out of this late work is the sheer creative energy and excitement of an artist at last coming truly to himself. Time and again we find him at last with the confidence to express the image with a direct and bold sufficiency, just enough and no more, and happy to leave the drawing still evident, the paint unfussed. The contrast with the careful, self-conscious finesse of Nicholson or Braque is striking. Here is a commitment born of optimism and self-assurance, or so one would have thought.

On his return to England in the summer of 1930, Wood fell under a train as it was pulling to a stop at Salisbury Station. His opium habit and his bouts of depression are well attested, but that he meant to kill himself is by no means certain. With his work going so well, and a growing reputation both in England and France, the tragedy is all the more inexplicable. The circumstances of his death have since romanticised his English reputation somewhat to the disadvantage of the actual work, obscuring its quality and strength. In France, this will be the first show of his work since the one at the Galerie Georges Bernheim in Paris, two months before his death.

The final rooms show the continuing engagement with international modernism of artists associated with St Ives, from the 1940s until today. Terry Frost, Patrick Heron, Peter Lanyon and Roger Hilton are strongly represented, as we would expect, but the point is made sharper by the presence of William Scott, Alan Davie and, most especially of William Gear, who was a leading member of the international COBRA Group just after the war and a true pioneer of British abstract painting. Like all true prophets, he is, even now, more honoured abroad than at home.

The last room is given to Karl Weschke, who came to Britain as a young prisoner-of-war, and has been settled at Cape Cornwall these many years. He stands in the great European tradition of Romantic Expressionism, with his dark images of dead or sleeping figures, scavenging dogs and desolate places. Due recognition has come late to him too, the Tate only lately acquiring a significant group of his paintings. And about time too.

Christopher Wood – a painter between two Cornwalls: The Tate Gallery, St Ives, until April 20, then to the Musée des Beaux Arts, Quimper. Supported by Brittany Ferries and The Yves Hervouet Research Fund at Lancaster University.

Theatre

Redgrave for his daughter

Lynn Redgrave has called her one-woman show at the Haymarket Theatre Royal – fresh from two American tours, Broadway and a stop in Melbourne – *Shakespeare for My Father*: Sir Michael, of course. The title might mislead. This is not an evening of Shakespearean recitations and impersonations, such as Sir Michael was wont to perform in his declining years.

Rather, it is a personal, anecdotal biography of Sir Michael; or in other words a selective Lynn autobiography which stresses her apparently distant relations with him (she was the third child, after Vanessa and Corin, and he was professionally too busy), glossed from time to time with citations from Shakespeare.

Those latter come in many sizes and flavours, from mere phrases to a whole set-speech – Portia's "The quality of mercy . . .", simple but warmly earnest – to a gross cartoon of a Juliet-and-Nurse scene, and an unhappy passage when Sir Michael's own superbly lucid, temperate diction as Richard II (on record) segues into Lynn's *molto troppo vibrato* continuation of his monologue. Vocally she is just like Vanessa, but Vanessa reserves that throat-seizing throb for honestly scaled peaks; here it is simply switched on, and very often. The focus of the effect is the emoting actress, not the meaning of what she has to say.

The biographical part is queasier. Apparently the show grew from an "evening of amusing family anecdotes" that Lynn Redgrave was asked to prepare for the members of a Washington D.C. library, but most of those seem to have disappeared. What remains is a clutch of anodyne family snapshots; though Sir Michael is barely to be discerned, Redgrave's recollections of her past feelings (mostly before she turned 13) are enacted with fervour. So is the present.

From the start she *acts* coming on stage, *acts* coming upon a box of costumes, acts – most grippingly! – putting on a small scarf; and all with the brave, winning smile that is canonical in American stage-confessionals like this one. Then come the flashbacks, in which Redgrave variously plays herself as a child (in a wholly improbable accent); captures the Dorothy Tutin voice and manner deliciously; does a wicked young Maggie Smith which might seem unfriendly and unfair, but is perhaps neither; and *acts* her own past disappointments, embarrassments and joys to the hilt.

Americans seem to feel at home with this genre of autobiographical show; myself, I find I sometimes don't know where to look. A famous performer playing himself in a show that recalls his dazzling stage-successes is one thing, easily indulged. A show like Redgrave's – she wrote it, and her husband has produced it – is quite another. Sincere, modest and "factual" though it is, in its particular terms, there remains an uncomfortable friction between recounting private family-events, which is what Redgrave devotees have come to hear, *and* playing your own younger self amidst them.

David Murray

London Jazz Festival

Improvisations on the sax

With the minimum of hype, tenorist Michael Brecker has risen from the role of essential sideman to that of quintessential leader. Usually cast as a jazz journeyman, jazz rocker or studio chameleon, the 47-year-old has metamorphosed fully into an awesome improviser in the post-bop tradition.

At the Royal Festival Hall last week, as part of the ORIS London Jazz Festival, Brecker roared into combative choruses, walled phrases and bone-shaking harmonics from the outset. Though he looked more like an investment banker in his charcoal-grey suit, gold-rimmed spectacles and bald pate, Brecker seethed with improvising ideas.

The new rhythm section swarmed with restless energy. Little pianist Joey Calderazzo, on loan from Blue Note, stood out as a stinging accompanist and bravura soloist. Drummer Jeff "Tain" Watts and acoustic bassist James Genus combined metronomic accuracy with eddying momentum.

Their leader emerged from this ferment with solo breaks of driving and turbulent energy, focused on original numbers from the splendid new Impulse album, *Tales From The Hudson*. Even the comfortable familiarity of "Skylark" was deliciously disturbed by Brecker's searching duet with the pianist.

Looking back, the Brecker combo's *tour de force* all but overshadowed the preceding set from guitarist John Scofield's tight and bright quintet. But only because Scofield's halting, engaging post-modern sound is so craftily understated. I promise to buy *Quiet*, the new release on Verve, to restore the neon images and late-night tailbacks evoked by this gem of a set.

Garry Booth

The Sonny Rollins Show stormed into the Barbican Hall on Friday. Making his annual visit to London, the tenor-saxophonist, now aged 65 and one of the few remaining legends of jazz, again demonstrated his consummate art to an ecstatic audience spanning all ages.

For many years a Rollins concert has been an intense celebration of saxophone playing by a master musician. Concerts are also the format in which he is at his creative best – studio recordings rarely convey the excitement and intensity of his on-stage performances.

Friday's two hours-plus of music was the latest re-statement and confirmation of his artistry. Rollins is the epitome of jazz as an improvisatory art. "I'm an improviser", he insists.

Too right. He takes up a tune (often a banal one), plays the theme statement, launches into a sustained, energetic improvisation on the melody, before finally, after prolonged exploration, returning to the melody.

On Friday he examined such unpromising material as "Three Little Words" and "They Say That Falling in Love is Wonderful". On the latter he raised the temperature several degrees with a series of boiling four and eight-bar exchanges with his drummer. The same tune provided a rare lengthy solo for long-serving trombonist Clifton Anderson who, as usual, spent most of the evening listening contentedly to the maestro. Pianist Stephen Scott naturally had more involvement but the percussionist, with his barrow-load of exotic "toys", was surplus to the needs of most of the music.

As ever the listener was amazed by Rollins but left with the suspicious feeling that the supporting contributions are, intentionally, merely decorative and unchallenging. But then this is the Sonny Rollins Show.

Kevin Henriques

Opera

Massenet put on the map

This year marks the fourth Massenet Festival at Saint-Etienne and a battle won, if not forgotten. Looking back, the organisers recall how little interest there was in France for a festival devoted to one of the country's most eminent opera composers, leaving most support to come from Britain and Germany.

That was in 1988, but now the biennial festival has helped to put Saint-Etienne on the map. The town lies south-west of Lyon in what used to be a prosperous industrial area: but mining and arms manufacture have fallen on hard times, so Saint-Etienne turned its attention to the arts and can now boast the second-largest modern art collection in France and this opera festival devoted to its most famous son.

Massenet was born in Saint-Etienne in 1842, though he only spent a few years of his childhood there before moving to Paris. His operas were immensely popular during his lifetime but their very keenness to please has told against them since his death, even in France. With more than 20 mature operas to his name, and almost all of them worthy of revival, Massenet is an ideal festival composer.

This year's new production – only one, unlike the ambitious early festivals – was *Thaïs*. It was handsomely staged, mostly well sung and played, extremely well conducted, and generally a credit to the town, which has invested a good deal of finance and prestige into making the festival a success. (The budget of FFr4.6m is supported 41 per cent by Saint-Etienne, followed by sponsorship primarily from France Télécom and regional subsidy.)

It is no good pretending that Massenet can be reinvented as a radical modern opera composer and this production did not try. The Saint-Etienne team of Jean-Louis Pichon (producer) and Alexandre Heyraud (designer) came up with a staging which did traditional production values proud. There is no reason why representative sets showing deserts, temples and the ancient city of Alexandria (a stunning backdrop) should be anything less than stylish, as these highly atmospheric designs showed.

What Pichon did was simply let the opera speak for itself. It is a strong, dramatic work by Massenet's standards and its central relationship might be enough to raise some eyebrows today: Thaïs is a prostitute who is converted to religion, while Athanaël the desert monk ends by falling victim to the carnal passion from which he has just rescued her. There were no updated references to Palace of Westminster hypocrisy or its French equivalent. Massenet's aim, both moral and dramatic, was left straight and true.

Ana Maria Gonzalez was a Thaïs who looked and sounded decidedly unhappy swathed in her harlot's chiffon, but underwent conversion into a more convincing heroine in the latter stages. Yevgeny Demerdiev, a promising Bulgarian baritone, captured the right inward quality for Athanaël and sang Massenet's gratefully-written role with some Gallic style. Luca Lombardo sang an ardent Nicias, Lionel Sarrazin was an authoritative Palémon, and the chorus romped merrily in an outrageous fashion-parade of the latest first-century Alexandrian couture.

The architect of the performance's success, however, was Patrick Fournillier, who has won renown as something of a Massenet expert, judging tempos to perfection and squeezing a tear or two (together with his eloquent violin soloist, John Bradbury) out of the famous "Méditation". *Thaïs* came across as every bit a masterpiece as *Manon* or *Werther*. It is a shame there is no longer the money to release the recordings of the productions. The CD sets from earlier festivals provided just the advertisement that Massenet – and Saint-Etienne – needs.

Richard Fairman

INTERNATIONAL
ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Koninklijk Concertgebouworkest: with conductor Evgeny Svetlanov and pianist Nikolai Lugansky perform works by Rimsky-Korsakov, Rachmaninov and Tchaikovsky; 8.15pm; Nov 20, 21, 22

■ ANTWERP

EXHIBITION
Openluchtmuseum voor Beeldhouwkunst Middelheim Tel: 32-3-8281350
● Tony Cragg: exhibition on the occasion of the recent addition to the museum's collection of a work by the British sculptor; to Nov 24

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Peer Gynt: by Grieg. Conducted by Jac van Steen, performed by the Berliner Sinfonie-Orchester and the Chor der Deutschen Oper Berlin. Soloists include soprano Noëmi Nadelmann, alto Elvira Dressen, and narrators Heidemarie Theobald and Daniel Morgenroth; 8pm; Nov 23, 24 (3pm), 25 (7pm)
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● San Francisco Symphony Orchestra: with conductor Michael Tilson Thomas perform works by Copland, Mahler and R. Schumann; 8pm; Nov 21

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Die Entführung aus dem Serail: by Mozart. Conducted by Peter Keuschnig, performed by the Deutsche Oper Berlin. Soloists include Johannes Terne and Amanda Halgrimson; 7.30pm; Nov 20
Staatsoper Unter den Linden Tel: 49-30-20354438
● Siegfried: by Wagner. Conducted by Daniel Barenboim, performed by Staatsoper Unter den Linden. Soloists include Siegfried Jerusalem and Mette Ejsing; 5pm; Nov 20

■ BOLOGNA

OPERA
Teatro Comunale di Bologna Tel: 39-51-529901
● Othello: by Verdi. Conducted by Christian Thielemann, performed by the Orchestra e Coro del Teatro Communale di Bologna. Soloists include Henning Brockhaus and Josef Svoboda; 8.30pm; Nov 23

■ CINCINNATI

EXHIBITION
Taft Museum Tel: 1-513-241-0343
● A Christmas in Naples: exhibition of an 18th century Neapolitan nativity from the collection of Francesca P. de Olaguer Angelon. More than 75 figures with carved animals, baskets, wax fruits, and other tiny accessories tell the traditional Christmas story of Christ's birth; from Nov 22 to Jan 5

■ DUBLIN

CONCERT
National Concert Hall – Ceoláras Náisiúnta Tel: 353-1-6711888
● Orchestra of St. Cecilia: with conductor Geoffrey Spratt and pianist Hugh Tinney perform Mozart's Divertimento in F for strings, K138, Piano Concerto No.15 in B, K450 and Piano Concerto No.17 in G, K453; 8pm; Nov 20

■ GENEVA

AUCTION
Sothebys Genève Tel: 41-22-7328585
● Magnificent Jewellery: this sale includes a collection of diamonds, coloured stones, parures and antique jewellery. Highlights include an emerald and diamond bracelet by Van Cleef & Arpels and a diamond necklace by Caumet, circa 1930; 10am, 2pm & 8pm; Nov 20

■ HANOVER

OPERA
Opernhaus Tel: 49-511-1686161
● Der Ring des Nibelungen: Das Rheingold: by Wagner. Conducted by Hans Wallat, performed by the Hannover Staatsoper. Soloists include Hans-Peter Scheidegger, Klaus-Michael Reeh and Zoran Todorovich; 7.30pm; Nov 20

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Alfredo Perl: the pianist performs Beethoven's Sonata in E flat, Op.7, Sonata in G minor No.1, Op.49 and Sonata in G No.2, Op.49; 7.30pm; Nov 20

DANCE
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Romeo and Juliet: a choreography by Kenneth MacMillan to music by Prokofiev, performed by the Royal Ballet. Soloists include Leanne Benjamin and Bruce Sansom; 7.30pm; Nov 20

■ NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Guarneri String Quartet: with viola-player Cynthia Phelps and cellist Colin Carr perform works by Mendelssohn, Brahms and Beethoven; 8pm; Nov 20
Avery Fisher Hall Tel: 1-212-875-5030
● The Guitar Trio: featuring Paco de Lucia, Al di Meola and John McLaughlin; 8pm; Nov 20
Carnegie Hall Tel: 1-212-247-7800
● Chamber Orchestra of Europe: with conductor Nikolaus Harnoncourt perform Beethoven's Symphony No.2 in D Major, Op.36 and Symphony No.7 in A Major, Op.92; 8pm; Nov 20
Merkin Concert Hall - Abraham Goodman House Tel: 1-212-5013330
● Chamber Music Society of Lincoln Center: with clarinettist David Shifrin, flautist Tara Helen O'Connor, the Orion String Quartet, harpist Nancy Allen, pianist Anne-Marie McDermott and percussionist John Ferrari perform works by Dzubay, Hess, Adolphe, Wuorinen, Pärt and Chihara; 8pm; Nov 20

MUSICAL
Lyceum Theatre Tel: 1-212-239-6200
● God Said, Ha!: a one-woman show written and performed by actress/comedienne Julia (Pat) Sweeney; Tue - Sat 8pm, Sun 3pm, Wed, Sat also 2pm; from Nov 20 (Not Mon)

■ PARIS

DANCE
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Nutcracker: a choreography by Rudolf Nureyev to music by Tchaikovsky, performed by the Ballet de l'Opéra National de Paris; 7.30pm; Nov 23

EXHIBITION
Musée Picasso Tel: 33-1 42 71 70 84
● Picasso. Gravures. 1900-1942: exhibition featuring some 230 graphic works by Pablo Picasso from the period 1900-1942, including such works as "Flûtiste et dormeuse" (1933), "Minotauromachie" (1935), "Femme qui pleure" (1937), and "Femme au tambourin" (1939); to Jan 20

■ STUTTGART

OPERA
Staatstheater Stuttgart Tel: 49-711-20320
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Janos Kulka, performed by the Staatsoper Stuttgart. Soloists include Katarina Dalayman, Elisabeth Canis and Roderic Keating; 5pm; Nov 20

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Asko Ensemble: with pianist Ellen Corver perform Stockhausen's Klavierstück No.X and Gesang der Jünglinge. Part of the festival Wien Modern; 7.30pm; Nov 20

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Financial Times Business Tonight

Martin Wolf

Age of the underclass

A new book provides a sweeping analysis of why the number of jobless men without qualifications has risen but the solution it puts forward is flawed

A third of British men without educational qualifications between the ages of 25 and 64 were without jobs in 1995. In the US, the proportion of white high-school dropouts in the same predicament was the same, while for black Americans it was nearly 40 per cent.

These figures describe the emergence of an "underclass" of people likely to need lifelong state support or experience desperate poverty. They come from a challenging new book by Professor Robin Marris of London University.* It deserves at least two cheers: one for confronting an important problem, another for the sweep of its analysis. But the third cheer must be withheld. The core of his proposed solution is a "Keynesian" policy of whipping up demand. This would not only fail to cure the disease; it could make it worse.

Prof Marris begins with the very high rates of non-employment of uneducated men and the large increases in the inequality of earnings in some countries, including the US and UK. His originality lies in the principal cause he identifies for these developments. This, he suggests, is inadequate economic growth – or, as economists would put it, insufficient increases in real demand in relation to changes in labour supply and productivity. Because of the shift of women into the labour force, for example, the share of the British population aged 25 to 64 wanting to work rose 10 per cent between 1970 and 1995. But the share of the population that found work fell almost 5 per cent.

There are three consequences of such inadequate demand for labour: slower growth in productivity per worker; slower growth (or even a fall) in real wages; or non-employment. All can be detected in what has happened over the past two decades:

- The unskilled have seen a sharp rise in joblessness as they are pushed to the back of the jobs queue.
- Early retirement and youth non-employment have soared.
- Where inequality of earnings has failed to rise, it has been hard to generate additional jobs.
- Virtually all jobs now demand higher skills.

Prof Marris does not rule out some other explanations that have been advanced for the emergence of the "underclass". These include the altered economic role of women and changes in technology that reduce the demand for unskilled men. They also include increased exports of labour-intensive manufactures from developing countries, which displace output of high-income countries, and the decline in the share of the labour force employed in high-wage manufacturing.

Yet he prefers to stress the role of sluggish aggregate demand. His argument is, in essence, that if it had been possible to continue along the path of high growth and low unemployment followed in the quarter-century before 1973 much of the increase in joblessness and inequality need never have happened. This seems right. The question is whether it was possible then or, more important, is possible to return to it now. To answer that one must understand what created the so-called "golden age".

A superb analysis of this period in Europe is contained in a book published this year for the London-based Centre for Economic Policy Research**. In it Professors Nicholas Crafts of the London School of Economics and Gianni Toniolo of the Università degli Studi di Venezia argue that the period between 1950 and 1973 was extraordinary and fragile.

The story starts with an opportunity – to close the gap in productivity with the US that existed at the end of the war. They then point to the exceptionally high level and rapid growth of investment needed to exploit it. This, in turn, was backed by the combination of wage stability with a supportive international economic system. The latter offered a monetary regime conducive to stable inflationary expectations and progressive liberalisation.

A central question concerns the place of Keynesian demand policies. In practice, it was minor, since the international regime was based on fixed exchange-rates vis a vis the US dollar. The increasingly strong belief that full employment was guaranteed must have played a part in the virtuous circle of success. But this was a two-edged weapon, since it also eroded wage restraint. Along with the external supply shocks, the disappearance of such restraint helped bring the golden age to its inflationary demise in the 1970s.

The most important conclusions of this analysis are that reproducing the sustained growth of that earlier period will be difficult, and cannot be done by a policy for aggregate demand alone. Only against this background is it possible to evaluate the core recommendations of Prof Marris on how to promote faster growth. These include targets for real growth; a target maximum for inflation, of 4 per cent; a commitment to lower short-term interest rates, aimed at bringing down real long rates to little over 2 per cent; and more restricted use of interest rates as a tool of demand management.

To understand what is risky about these ideas, it is important to recall how the golden age ended – in high inflation. Prof Marris is arguing for a more expansionary macroeconomic policy with lower interest rates. He presumes this will also increase real demand and real output, thereby reducing the problem of the underclass. But this would be true only if inflation were not to rise in step.

Yet remember that between 1973 and 1995 UK money gross domestic product rose 840 per cent. This suggests there was hardly a shortage of demand. Unfortunately, it was accompanied by only a 47 per cent rise in real GDP. The rest was dissipated in higher prices.

Inflationary expectations matter. The reason the policy of low short-term interest rates would not be credible is that people would believe it to be inflationary and unsustainable. If they did not believe it sustainable, it would not lower long-term interest rates, as Prof Marris desires.

The question then is whether there is any way of recapturing at least a few of the desirable characteristics of the golden age, if not by these proposals. The answer is yes.

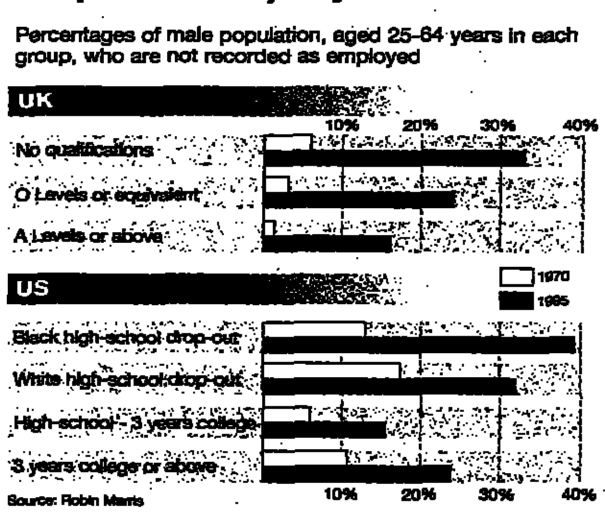
That age was, until its end, one of well-anchored expectations of low inflation. The industrial countries are now not very far from that objective. It was an age of steady growth of nominal demand in line with underlying supply at low inflation. The US has begun to recreate this achievement, offering Europe and Japan an example to follow. The golden age was also a period of liberalisation. Here, too, there are great opportunities.

Faster economic growth – combined with policies to improve incentives for the unskilled to work and to learn, as well as targeted redistribution of income – would help rescue the underclass.

Prof Marris has at least helped identify the problem, even if one rejects some of his solutions. His emphasis on faster growth is right. But it must be non-inflationary growth. Simple Keynesianism is not the answer if there is to be any chance of returning, even in part, to the lost golden age.

No qualifications, no job

Percentages of male population, aged 25-64 years in each group, who are not recorded as employed



Source: Robin Marris

*Robin Marris, How to Save the Underclass. *MacMillan, London, 1996.*

***Nicholas Crafts and Gianni Toniolo, eds.*, Economic Growth in Europe since 1945. *Cambridge University Press, for the Centre for Economic Policy Research, Cambridge, 1996.*

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Abdication of leadership by US

From Mr Kurt W. Bassuener.

Sir, It seems that Goebbels had a point: when an untruth is repeated incessantly, it is likely to be taken as the truth. While your editorial "Neo-colonists" (November 8) made several valid points, it repeats the conventionally-accepted, but false, judgment that interventions in Somalia and Bosnia were cases of overreach by the west.

In Somalia, the US-led successor force to the small and ineffectual first UN force was originally given the task of disarming the rival factions that helped precipitate the famine in that troubled country. From the outset, for fear of casualties that were thought to be politically unjustifiable, this mandate was not pursued with vigour. The force, Unitaf, thus squandered the massive deterrent effect of the deployment, which initially drove the faction leaders to Addis Ababa within 72 hours of the US marines' landing. Only after it became clear that no programme of weapons confiscation was forthcoming was there any resistance worthy of note to the multinational force.

Rather that deal with the problem that brought the mission about in the first place, the US force put a large proportion of its effort into "force protection". The downward spiral to US humiliation with the failed raid on Mohamed Fara Aideed's headquarters in Mogadishu began at this point; it was not pre-ordained by an over-zealous mandate.

The same preoccupation is prevalent with US forces serving in Ifor, with many of the tenets of the Dayton agreements the force is deployed to implement simply not being fulfilled due to a fear of incurring casualties.

The tragedy of the present situation in central Africa is that, when it was needed, the US abdicated the leadership role it tenaciously reserves for itself for fear of the political repercussions of the logical consequence of such a role – i.e. casualties. If the US wishes not to have the world look to it for leaderships in dealing with such crises, it must help create a permanent and professional UN reaction force to do the job. Until that day the US will continue to be expected to address each humanitarian crisis, even when there is no perceived national interest to do so.

Kurt W. Bassuener,
4205 Jenifer St, NW,
Washington, DC 20015, US

Estonia thriving in market economy

From Toivo Klaar.

Sir, I take strong issue with the flippant remark by Mr Dominique Moïsi on the "non-readiness" of Estonia or its neighbours "to survive in a market economy" ("On two different cycles", November 15). Unlike most EU member countries Estonia has completely opened up its markets during the past few years to the extent that we neither impose any import tariffs on either industrial or agricultural products nor subsidise any sectors of our economy. These achievements have been recognised by the EU by forgoing any transition periods in the implementation of our association agreement with the Union.

Furthermore, the European Bank for Reconstruction and Development puts Estonia's purchasing power per capita in third place in central Europe following Slovenia and the Czech Republic. I believe that these facts indicate that not only is Estonia surviving in a market economy, but is in fact thriving in it.

Such flippant remarks as Mr Moïsi's are, however, a worrying indication of people who should be (and are) expected to know better, basing their comments on preconceived misconceptions rather than on researched facts.

Toivo Klaar,
chargé d'affaires,
Embassy of Estonia,
Brussels,
Belgium

Groomed

From Mr Aaron M. Fine.

Sir, In which category of Lucy Kellaway's "Execs groomed for life at the very top" (November 11) should we put Mr Bill Gates?

Aaron M. Fine,
110 Harvard Avenue,
PO Box 273,
Swarthmore, PA 19081, US

In best interests of both

From Mr Nigel Wilkins.

Sir, I find it disappointing that the Confederation of British Industry believes that following the stakeholder approach and maximising shareholder value are mutually exclusive objectives ("Two-tier German boards rejected", November 1). Those companies that best serve the interests of their stakeholders usually have the most satisfied shareholders.

Nigel Wilkins,
8 Petersham House,
Harrington Road,
London SW7 3HD

Not all plain sailing

John Ridding on the crucial role Anson Chan is likely to play in Hong Kong

During a visit to Beijing earlier this year, Mrs Anson Chan, Hong Kong's top civil servant, gave her hosts a picture of a junk in full sail, painted by her mother. It symbolised, she said, her hope for a smooth transition when the territory returns to Chinese sovereignty from Britain next July.

Whether Hong Kong can negotiate its perilous return to China will depend to a large extent on Mrs Chan's presence among the crew. For while most attention has focused on the battle for the position of chief executive – the post-colonial governor – her role is at least as important in securing a successful handover.

"Many of us in business think she is a vital part of the team for the transition," says Mr Henry Tang, chairman of the Federation of Hong Kong Industries. "I would be very concerned if she wasn't around," adds another prominent businessman.

It is a common view. Mrs Chan is by some distance the most popular public figure in Hong Kong, and was heading opinion polls to become the territory's next chief executive until she ruled herself out of the contest last month.

That she will not be leading Hong Kong after the handover reflects a process of selection rather than election. A 400-member committee, chosen in a secret ballot by a 150-strong Beijing-appointed body, will declare the chief executive next month. Barring surprises, that will be Mr Tung Chee-hwa, the shipping tycoon with strong Beijing connections who won more than half the ballots in last week's preliminary vote.

Mrs Chan's loyalty to Mr Chris Patten, the present Hong Kong governor appointed by London, and her support for the democratic reforms he has implemented are both black marks in the eyes of Beijing – hence her absence from the contest for the top job, but not from the political scene. "It remains my wish to continue to serve the people of Hong Kong," she says.

Mr Tung shares this wish. "I would like to work with Anson," he says, signalling his intention to retain her as chief secretary.

Anson Chan: important in securing a successful handover

Such overtures from Mr Tung and from the other contenders for the top job reflect the fact that Mrs Chan stands for stability and continuity at a time of uncertainty. "Anson knows how the system works better than anyone and she is vital to the morale of the administration," says a colleague in the 180,000-strong civil service.

Her understanding stems from 34 years in the administration, which took her to the top of the welfare department and the economic services division and, since 1993, to the post of chief secretary. In the early stages at least, this was achieved on a playing field tilted against women and ethnic Chinese.

That she was the first ethnic Chinese to head the administration is an important factor in Mrs Chan's public support. "The civil service was a colonial institution," says one legislator. "She showed that local people could have a big influence in public affairs."

Mrs Chan's background also provides a valuable cultural mix. "She has Cantonese canniness, Shanghainese chutzpah and the discipline of the civil service," says one associate. Her grandfather is recognised as a patriot in China for fighting against the Japanese in the 1930s, her late father was a Shanghai businessman before moving to Hong Kong with eight-year-old Anson in 1948, while her mother's art is respected on the mainland and beyond.

Local and foreign business executives are drawn by her skills as an administrator and her stance on economic issues. In a speech this month in Japan she stressed her commitment to free markets, small government and low taxes. "While we provide no comfort to the businessman who fails, we do allow the successful to keep the bulk of their profits," she said. Along with the development of infrastructure and services, she argued, Hong Kong's simple economic formula would underpin its expansion as a regional business hub.

Most important, say her supporters, is Mrs Chan's staunch defence of Hong Kong's autonomy and its rule of law. Both issues loom large in discussions about the territory's post-1997 prospects. There are fears that the territory's institutions will be weakened by the heavy hand of Beijing and that Hong Kong will fail to protect its interests. Journalists talk of growing self-censorship in the media, and there are fears that business will look to Beijing rather than Hong Kong for decisions on contracts. Such fears were fuelled by delays to this year's award of local mobile telecommunications franchises after Hong Kong business groups lobbied Beijing to review decisions by the territory's government.

The contest for the post of chief executive has done little to dispel such concerns. The contenders have preached conciliation with China and steered clear of sensitive issues such as future "anti-subversion" legislation in Hong Kong which will determine the scope of freedom of expression. Mr Tung has stressed the need to avoid confrontation with Beijing, distancing himself from Mr Patten's political reforms and criticising Britain's handling of relations with China.

Mrs Chan, however, has placed greater emphasis on protecting Hong Kong's autonomy, a point she made in guidelines for prospective chief executives issued last month.

Earlier this year Mrs Chan became embroiled in a row with Beijing, rejecting demands by a senior official that Hong Kong civil servants should pledge allegiance to an appointed provisional legislature which will replace the present elected body. "This was extremely damaging," she says. "It reinforced fears over whether China would really allow the civil service to continue to operate impartially."

The tough streak that the row revealed may win her increased respect among Hong Kong's residents. But it may complicate dealings between Mrs Chan and Beijing, and could yet prompt opposition to her tenure. Critics also suggest that Mrs Chan's political antennae are not as finely tuned as her administrative skills. One pro-China politician points to her recent reference to a disputed island chain by its Japanese name, rather than its Chinese title, despite a wave of emotional protests in Hong Kong in support of China's sovereignty.

Her visit to Beijing, however, defused the row over the civil service, largely in her favour, since the idea of a pledge of allegiance was dropped. It also showed that China, despite some suspicions, realises her value in the transition period.

The message is not lost on the contenders for the post of chief executive – hence their invitations to Mrs Chan. Mr Tung, in particular, is under no illusions about the difficulties of the task he would face. "A very lonely job," he mutters. He knows it would be lonelier still without the backing of the chief secretary.

FINANCIAL TIMES

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Tuesday November 19 1996

More worries about the yen

Yesterday's meeting between Mr Alan Greenspan, the US Federal Reserve chairman and his Japanese counterpart, Mr Yasuo Matsushita was haunted by the ghost of trade frictions past. For more than a year and a half relations between the world's two largest economies have been unusually harmonious, united around a desire to prevent deflationary meltdown in Japan. Yet the recovery of Japanese exports has many claiming that enough is more than enough.

These cries were particularly loud in the US yesterday in response to the latest Japanese trade figures. Though the overall trade surplus last month was nearly 18 per cent lower than a year ago, the bilateral surplus with the US was more than 30 per cent up on September.

The figures are a testament to Japanese exporters' ability to bounce back and, say US manufacturers, to the need to reverse at least part of the yen's 27 per cent decline against the dollar since April 1995. But exports are only one piece of the yen-dollar puzzle. The more important questions for exchange rate policy relate to the strength of the Japanese economy, and how much it has changed since the 1980s.

On the first, worries about another dramatic downturn in Japan have subsided during 1996. But though the recovery seems more firmly entrenched, there is little evidence of a nascent boom. Consumer spending has slowed since the first quarter. This, coupled with the removal of the prop of large-scale investment in public works, has most forecasters predicting modest growth in the third quarter of perhaps 1-1½ per cent annualised.

Japan, in other words, still needs nurturing. But with the ministry of finance now determined to rein back public borrowing, the job of safeguarding growth will fall increasingly to Mr Matsushita. So short term interest rates might well stay at their present low level well into next year.

This implies that Japanese investors will continue to seek out higher yields overseas, thereby giving continued support to the dollar, regardless of Washington's concerns. The signs are, at any rate, that the US administration is happy to adopt a wait-and-see approach on the exchange rate while there remains so much uncertainty about the Japanese recovery. But as the US Treasury secretary, Mr Robert Rubin, well knows, it is not simply a matter of waiting to see how fast the economy recovers. There is also the question of gauging whether the new recovering Japan is the same as the old one.

At the root of US-Japanese trade frictions has always been the fact that Japan, unlike most developed countries, had a knack of exporting its way out of recession without sharing the fruits of growth at home with its trading partners in the form of rising imports.

The signs are that this is changing, albeit more slowly than the US would like. Deeper and faster deregulation of industries such as telecommunications would speed the process considerably and, incidentally, help push up long-term economic growth. The test of a new Japan will be the government's capacity to push forward with such an agenda *before* it is asked to by a growing US.

Off the farm

Mr Franz Fischler, Europe's Austrian farm commissioner, may seem an unlikely reformer. But he is winning a reputation as a source for sensible ideas on changing the Common Agricultural Policy.

His latest thoughts, presented to EU farm ministers yesterday, call for a radical shift in subsidies from farm production towards other aspects of the rural economy. That is long overdue. Farming is no longer the dominant rural employer and society does not now automatically regard farmers as custodians of the countryside.

Moreover, EU agricultural subsidies distort world markets. They are bound to come under renewed fire from Europe's trading partners by the end of the century when its previous round of farm reforms is up for review. If left unchanged, they will also impede the EU's planned admission of new members from central Europe.

What is needed is a review of the whole panoply of subsidies the EU showers on its rural areas, of which farm support is only one. As Mr Fischler pointed out in Cork last week, they grew up independently of one another, so it is not surprising they do not cohere.

It can, of course, be debated whether the countryside deserves special assistance at all. But while the EU sticks to the view that it does, it should at least make sure its money is appropriately spent. Mr Fischler has launched a valuable debate. He deserves support from all advocates of CAP reform, not the brickbats he has lately been receiving from Britain.

UK taxes

Mr John Major, the UK prime minister, has made it a moral crusade to lower taxation, so in his budget next week, Mr Kenneth Clarke, the chancellor, must find the money. Cuts in income tax remain one of the most important Tory aspirations. However if the chancellor can scrape together a few billion, there would be better ways to spend it than on moving towards a 20 per cent basic rate of income tax. He is, in any case, unlikely to find more than £2bn or £3bn, against the £7.5bn which would be needed to cut the basic rate to 20 per cent.

The government's low poll ratings might induce a desperate move to outflank the opposition. The Labour party has been mooting a 15 per cent or even 10 per cent starting rate of income tax. The current 20 per cent rate was introduced as a successful pre-emptive strike against Labour in 1992, which Mr Clarke might repeat. However, Tory backbenchers would prefer cuts in the 24 per cent basic rate. But this would cost £1.9bn for each penny in the pound.

Neither of these tax cutting options would enhance the chancellor's reputation for sound economics. In particular, they would fail to remedy adverse effects of personal taxes on decisions to save and work.

For savers, the choice between different assets too often now depends on the generosity of tax treatment rather than underlying risk and return. It would therefore be desirable to make the tax treatment of different assets less unequal. For example, the taxation of savings income for basic rate taxpayers could be reduced again, or Peps and Tessas could be extended.

Taxes can also make companies more reluctant to hire and reduce the incentive for people to give up welfare benefits and take a low paid job. Recently the tax burden on lower incomes has been increasing, while a cut in the basic rate mainly benefits people on higher incomes. According to the Institute for Fiscal Studies, tax changes between 1985 and 1995 added around £2 a week to the tax burden of the poorest 40 per cent, while cutting over £30 a week from the richest 10 per cent. To help employment, the chancellor would do better to focus on lower earners. The best way to do this would be to alter National Insurance, rather than income tax.

Altogether, income tax, which raises less than a quarter of total revenues, has received vastly more attention than it deserves. If the chancellor is obliged to cut income tax for political reasons, he would be best advised to raise personal allowances, which would move poorer people out of income tax altogether and cut administrative costs.

Unfortunately, such income tax cuts have not been in political favour since 1986, largely because they do not have wide popular appeal. If he rejects higher allowances for this sad reason, an extension of the 20 per cent band would at least be a less undesirable option than a cut in the basic rate.

Pre-election budgets have not generally been marked by imaginative tax changes. Yet, despite the electoral constraints and the need to cut the budget deficit, there are several worthy things to be done. More radical reform must await the next budget, whoever is in charge.

The end of the beginning

Romania's peaceful elections mark the close of the revolution that began with the overthrow of Ceauşescu, says **Virginia Marsh**

It was a moment many Romanians thought they would never see. In a live television broadcast in the early hours of Monday, Mr Ion Iliescu, their president since 1990, conceded defeat in Sunday's election run-off.

For the first time, Romania has changed its leader in a peaceful and democratic manner. Tens of thousands of mainly young people took to the streets to celebrate the opposition's resounding victory over the former Communists.

The election of Mr Emil Constantinescu, candidate of the pro-reform Democratic Convention, means both the presidency and the parliament are now controlled by the centre-right. It also marks the end of a revolution that began seven years ago with the violent overthrow of dictator Nicolae Ceauşescu.

"These elections represented a historic crossroads for our country," said a jubilant Mr Constantinescu. "Now we can step into the future – a future in which Romania will be part of the family of democratic states and of a united Europe."

Mr Iliescu has been one of communism's great survivors. He emerged at the head of the group of former senior officials which toppled Ceauşescu in December 1989. His Party of Social Democracy had been routed in parliamentary elections two weeks ago, but even some staunch Convention supporters had doubted Mr Constantinescu, a mild-mannered geology professor, would defeat the president.

In the first round of presidential voting Mr Iliescu, an avuncular figure who has always been more popular than his party, had emerged at the head of a field of 16 candidates. But the victory of the Convention and the centrist Social Democratic Union, its future coalition partner, in the parliamentary poll led almost all the other political parties to back Mr Constantinescu.

In the end, Mr Constantinescu, whom Mr Iliescu beat by more than 20 points in their last head-to-head encounter four years ago, won by an unexpectedly large margin. With almost all votes counted, results published last night indicated he had won 54.4 per cent of the vote.

In a country short on democratic tradition, most opposition leaders emerged after 1989 from the universities, emigré families or the tiny groups of dissidents which had been brave enough to oppose the Ceauşescu regime. Mr Constantinescu first stood against Mr Iliescu in the September 1992 elections, having emerged only months before as the compromise candidate of the Convention, a newly formed and loose coalition of anti-communist parties and civic groups.

His lack of experience and preparation showed in televised debates with Mr Iliescu. This time, the dapper Mr Constantinescu came over as a self-assured, modern leader with a clear vision for the future. In last week's marathon television debates, his sharp probing of Mr Iliescu's past often had the president at a rare loss for words.

He also benefited from his opponent's aggressive campaign. The president who claimed to have become a convert to capitalism resorted to Bolshevik-style rhetoric: he claimed the opposition would reinstate the monarchy and prewar landowners, close large factories and threaten the country's unity by including ethnic Hungarians in the government.

This enabled Mr Constantinescu to present himself as a moderate figure, capable of ensuring national reconciliation in a Balkan state of great regional diversity. Romania has sharp divisions between its ethnic groups, between the young and those struggling to adapt to market-led change, and between city-dwellers and peasant farmers cut off from the modern world.

He faces a formidable challenge in keeping together a coalition split by personality conflicts and internal policy differences. The Convention promised a US-style "Contract with Romania", with faster economic and political reform, a campaign against corruption, removing barriers to private enterprise and improvements to the welfare system – while also cutting taxes.

The new government hopes such policies will boost its chances of joining Nato – Romania is a strategically important Black Sea state bordered by countries such as Ukraine and the former Yugoslavia. It also wants to join the European Union shortly after the turn of the century, and was one of the first group of six former eastern European states which have signed association agreements as a prelude to full membership.

Mr Iliescu began to develop free-market institutions and laws. But while the economy is growing, inflation is running at 45 per cent a year and exports have recently plunged due to an over-valued currency. Restructuring of the large industrial producers has been patchy and foreign investors have invested just $2bn since 1990, compared to more than $12bn in Hungary, which is more than half the size.

One of the Convention's greatest advantages in pressing ahead with reform will be its support among young voters, city-dwellers and private business. They have propelled it into power, believing they have the most to gain from faster and more coherent change.

"Romania is immeasurably calmer than it was four years ago, a small but dynamic private sector exists and foreign investors who have exhausted many of central Europe's best opportunities are lining up," a senior western diplomat said yesterday.

"This victory is the positive signal many were waiting for. The irony is that the country was in such a bad way in 1992 that if the opposition had won then, it wouldn't have lasted long in government."

Bulgaria's waiting game

Romanians may have finally engineered the change of regime which so many hoped for after the fall of Ceauşescu, but Bulgarians are still waiting.

Bulgaria's opposition Union of Democratic Forces briefly controlled both the presidency and the government in the early 1990s only to lose power through internal feuding.

The fortunes of the opposition – a loose coalition of non-communist intellectuals – now seem to be improving again. Earlier this month Mr Petar Stoyanov, a Bulgarian divorce lawyer and little-known opposition politician, won a convincing victory in the presidential election over the candidate put up by the Bulgarian Socialist party led by former Communists.

But the presidency is a ceremonial post. And it has been in opposition hands since Mr Zhelyu Zhelev, a former dissident, won for the UDF five years ago.

Real power remains concentrated in a small group of advisers around Mr Zhan Videnov, the prime minister. A former Communist party youth leader, he led the Socialists to a landslide victory in the December 1994 general election, and many Bulgarians thought that the ascetic 37-year-old would end five years of economic and political drift.

But Mr Videnov, a poor speaker with little charisma, rarely appeared in public and was criticised for returning to a secretive system. He was accused of ignoring parliament and public opinion and of failure to push forward with economic reforms.

One of his most powerful critics was Andrei Lukanov, a Gorbachev-style reformer who had elbowed aside Mr Todor Zhivkov, the veteran Communist party boss, in a bloodless 1989 coup, becoming prime minister and masterminding the transformation of the Communist party into the Socialist party. Two months ago, however, Lukanov was killed outside his house.

His death remains a mystery. But many believe the killing was connected with Russia's ambitious plans to route new oil and gas pipelines through Bulgaria. Lukanov had recently been removed from the chairmanship of Topenergy, a Russian-Bulgarian gas joint venture, and had held out for better terms for Bulgaria from transit fees and ownership of the new pipelines.

The assassination came as Bulgarians were already reeling from a banking crisis which forced the central bank to close 14 banks and raise annual interest rates to 300 per cent to tempt depositors back after the withdrawal of the equivalent of $700m (£426.8m) in previous weeks.

To his credit, Mr Videnov appears to have kept his nerve under extraordinary pressure. Interest rates have come down to 180 per cent and the government has finally decided to heed World Bank and International Monetary Fund advice. It is closing big lossmaking companies and privatising more than 20 corporations attractive to foreign investors. Mr Videnov has also accepted the idea of shifting to a currency board system which rigidly links domestic money creation to the volume of foreign currency reserves.

Time is running out for Mr Videnov, however. Last week he narrowly won a vote of confidence. But two days later Mr George Pirinski, the foreign minister, resigned, signalling his intention to challenge Mr Videnov at a special party congress next month.

The opposition hopes that a divided Socialist party will be forced to call an early general election. At that point Bulgarians could follow the Romanian example and drive the former Communists from power. The question is whether the opposition would prove more effective than last time – or perform any better than the Socialists they are seeking to replace.

Anthony Robinson

· OBSERVER ·

Star trek checks out

■ Some reassuring words from the insurance market for those worried by the spectacular fall to earth of Russia's Mars 96 space probe – only one in seven commercial satellites fails to reach a satisfactory orbit, which is why insurance underwriters charge an average premium of about 15 per cent.

Indeed, Russia's Proton rocket – which yesterday came to an untimely end in the Pacific – is reckoned to be one of the most reliable launch vehicles around. Thirty-four losses out of 248 flights, with most in the early days, is a record second only to McDonnell Douglas's Delta rocket. The scientists behind the Mars 96 mission chose not to buy insurance. But Lloyd's of London underwriters reckon they could have hedged their bets for a premium of about 10 per cent of the value of the space probe.

Despite these comforting statistics, the space industry has seen a remarkable sequence of failures this year. In June the European Space Agency's new Ariane 5 rocket exploded shortly after lift-off from French Guyana. China's Long March launch vehicle has also had a tough year, going up in flames in February, along with the valuable US communications satellite it was carrying.

Until it's possible to insure against being hit by debris, Observer advises taking no chances – travel to work in tin hats until further notice.

Chilly reception

■ Things could get a little steamy over Japan's winter Olympics at Nagano in 1998. The Association of National Olympic Committees (ANOC) yesterday warned all nations hosting forthcoming games to abide by the original terms of their bids, which must have made Nagano's authorities wince.

For back when Japan's [illegible] so-called "bubble economy" was fit to burst, Nagano's bid to host the next winter Olympics generously included a promise to pay the travel expenses of all athletes.

But times are harder now. In April Nagano quietly dropped the fat wallet pledges and instead put a $1,000 limit on each athlete's travel budget, a sum that would hardly cover a bucket-shop air ticket to Japan for many athletes. Such manoeuvres have clearly irked the ANOC.

Nor will Nagano get a sympathetic ear from the press hacks covering the games who will now be charged a nightly rate of Y14,000 to stay in the conveniently-located press village, instead of the promised discount rate of about Y4,000.

It could be very frosty atmosphere by the time the games start.

Wedding party

■ Manuel Camacho, one-time presidential hopeful and scourge of Mexico's ruling party, staged the political event of the year at the weekend – his wedding – with a guest list of Mexico's great and ambitious.

To the bridegroom's left were Cuauhtémoc Cárdenas, the twice-defeated presidential candidate, and several leaders of the Revolutionary Democratic party. On his right sat Luis Alvarez and Felipe Calderón, past and present leaders of the conservative National Action party. Gabriel García Márquez, Nobel laureate, added literary sparkle while Mexico's business establishment, led by beer magnate Juan Sánchez Navarro, lent gravitas.

Having served former president Carlos Salinas as foreign minister, mayor of Mexico City and peace commissioner in the guerrilla-infested Chiapas region, Camacho committed the unpardonable sin of protesting when he was not chosen to succeed Salinas as president. For that, he was punished with expulsion from the Institutional Revolutionary Party, the longest-ruling party in the world – but has refused to leave the political stage.

Camacho publicly harbours presidential ambitions, and hints he would gladly marry any political group willing to launch his candidature in the year 2000. Indeed, his real bride, Mónica van der Vliet Campero, was somewhat upstaged on her big day.

Italian snappers

■ It was obviously a chic weekend for weddings, as the Agnelli family – Italy's nearest thing to royalty – chose the same time for the nuptials of Giovanni Agnelli III, 32-year-old heir apparent to the country's largest private business. The bride was Avery Howe, a 31-year-old Anglo-American architect, chosen in preference to the scions of Italian aristocracy.

The local press tried to muscle in on the very discreet affair, but the Agnellis proved that you can keep the paparazzi away if you really want to. Only one photograph was distributed, taken by a family friend. Nine rogue snappers who penetrated the premises were ejected. And no honeymoon: the conscientious couple went straight back to work.

The Financial Times

100 years ago

The American Presidency
Bryan has certainly been beaten, but not as badly as first returns indicated. Single-handed as he was, and a mere jack-in-the-box compared with the usual run of Presidential candidates, he has made a good fight – so good, indeed, that there can no longer be a doubt about his keeping it up. The final returns will probably put him within a hundred votes of McKinley – a very respectable position for him even if he had been a regular candidate instead of a rank outsider. And the cause he represented has not done so badly either. *[William McKinley, governor of Ohio, became the 25th president in 1896 and died of gunshot wounds in his second term in 1901.]*

50 years ago

Canada's Coal Position
The soft coal strike in the United States, unless prolonged for several months, is unlikely seriously to affect Canada. Mr Clarence Howe, Minister for Reconstruction, who made the declaration, said that a very large proportion of Canada's coal needs were met in the navigation season when supplies were piled up for the winter. Mr Howe views the outlook in Canada cheerfully, announcing "production is now really beginning to roll".

FINANCIAL TIMES
Tuesday November 19 1996

Thai election winner leaves out former PM

Gen Chavalit lines up six-party coalition

By Ted Bardacke in Bangkok

General Chavalit Yongchaiyudh, likely to be Thailand's next prime minister, yesterday announced the formation of a six-party coalition that excludes his predecessor, Mr Banharn Silpa-archa. The move strengthens his majority in parliament but may not spare the new administration from chronic instability.

The Thai stock market marked the Chavalit victory with a 5.8 per cent drop, recovering slightly when he announced the exclusion of Mr Banharn at mid-day.

The market reaction reflected investors' concern that the change does little to address the structural political and economic problems Thailand faces.

Gen Chavalit and Mr Banharn had appeared together after polls closed on Sunday to say they would continue to support each other. But in a turnaround, Gen Chavalit has brought in the opposition Chart Pattana party, led by former premier Gen Chatichai Choonhavan, and another smaller opposition party to form a coalition with a comfortable 52-seat majority.

With the support of Mr Banharn's Chart Thai party, the coalition would have had a slim 11-seat majority.

Gen Chavalit's decision was necessary to try to offset criticism of the initial announcement on Sunday evening of a probable government that was essentially the same as Mr Banharn's coalition, which had collapsed under charges of corruption and economic mismanagement.

Gen Chatichai, despite his being ousted in a military coup in 1991 and subsequently being declared "unusually rich", is credited by many for presiding over three years of double-digit economic growth in the late 1980s.

Gen Chavalit had promised before the election to appoint non-politicians to head the ministries dealing with the economy and foreign affairs. But that appeared in doubt yesterday as Chart Patanna executives said their party, in exchange for joining the government, would be selecting the ministers for the economic and foreign affairs portfolios.

Announcement of a full cabinet line-up is likely to be several days away.

Although Gen Chavalit's New Aspiration party earned the right to form a new government by narrowly winning the most seats in Sunday's election, it took only one seat in the capital, Bangkok, which is dominated by the opposition Democrats who finished just two seats behind the NAP nationally.

Ragged start for Thailand's new coalition, Page 8

US car makers hit at rise in Japanese imports

By William Dawkins in Tokyo and Nancy Dunne in Washington

The US car industry yesterday hit out over a sharp rise in Japanese car imports as Tokyo's bilateral trade surplus with the US rose for the first time in nearly two years.

Mr Andrew Card, president of the American Automobile Manufacturers' Association, attributed the rise to "questionable intervention by the Bank of Japan."

"This had left the yen "weaker than economic and financial fundamentals would justify," he said, even after the Japanese currency's recent slight strengthening.

Japanese car exports to the US rose 44 per cent last month, helped by a surge in demand for recreational vehicles, the Tokyo finance ministry said. The higher car sales helped lift Japan's trade surplus with the US by 31 per cent to Y354.8bn.

In Washington, the reaction was muted over a first set of negative figures. A spokesman for the US trade representative said that "progress is not what we hoped" when the US and Japan reached agreement on automotive sales last year.

Washington is disappointed at the slow pace of Japanese deregulation, which would boost sales of US car parts as well as the opening of dealerships to sell US cars in Japan.

However, officials are pleased with the projected overall 25 per cent decline in this year's trade deficit with Japan.

Mr Card said the weak yen reduced the pressure on the Japanese government to carry out economic deregulation and hindered US carmakers' attempts to increase market share in Japan.

He suggested Y100 to the dollar was a more realistic exchange rate than the more than Y110 at which the US currency is trading.

Mr Jesper Koll, chief economist at J. P. Morgan in Tokyo, said the rise in the surplus with the US was a consequence of a decline in exports of Japanese cars made in the US back to Japan, which was also a response to the weaker yen. It was advance warning of a gradual rise in the overall surplus in the next four to six months.

A spokesman for the Japan Automobile Manufacturers' Association said production by Japanese companies in the US continued to exceed imports.

In contrast to the growing surplus with the US, Japan's overall surplus fell 12.9 per cent to Y470.9bn in October. However, that represented a sharp slowdown in the rate of the fall from September's 30.3 per cent drop.

THE LEX COLUMN

Privatising pensions

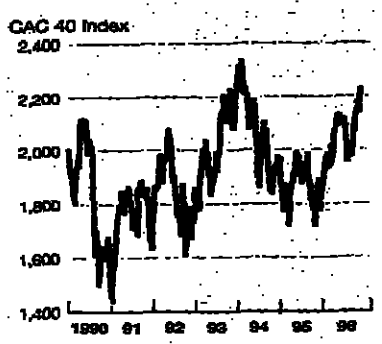
France's lack of private pension savings is not only a problem for its creaking pay-as-you-go pension arrangements; it also helps explain the country's often stagnant corporate culture. Without heavyweight independent institutional investors, it is not surprising companies are not always kept on their toes. So proposals to encourage employee pensions, at last due to be debated in parliament this week, are a welcome step forward.

Still, government hopes that the plans will put new life into the French equity market look overblown. For one thing, the disappointing take-up of existing pension incentives for the self-employed suggests even generous tax breaks are unlikely to attract large sums of new saving. A far more powerful incentive would be fears that existing pension provision cannot last. Yet the government has little to gain, politically or economically, from stoking these fears and diverting large sums from consumption into saving.

Moreover, such new savings as do result will not necessarily flow into French equities. On the contrary, consumer conservatism means the bulk of current long-term savings – in life assurance – is invested in bonds. And even in equities, pension funds need not invest in France: under European monetary union, it will be easy to look elsewhere. It is only a more shareholder-minded corporate culture, not a sudden flood of capital, which will deliver a revolution in the French market.

FTSE Eurotrack 200:
1865.9 (+1.6)

French equities



Source: Datastream

Index weightings

What should determine a stock's weight in an index? Market capitalisation is the obvious answer. But when a company is only partially floated, such an approach can skew its valuation. This occurs because an increasing proportion of fund managers are index-trackers, who are forced to buy a share irrespective of its price; even those who are not formally trying to match an index are judged by how well they perform against one. So including a partially-floated stock in an index on the basis of its entire market capitalisation can artificially boost demand. Imagine the extreme case where every investor is an index-tracker: the price would spiral forever upwards, as shareholders chased the impossible goal of all being fully weighted.

The recent partial privatisations of both Deutsche Telekom and Eni, the Italian energy group, mean this is not simply an academic matter. In both cases, less than 30 per cent of the stock has been floated. But if included on the basis of entire market capitalisation, DT would account for over 10 per cent of the German stock market while Eni would account for over 20 per cent of Italy's.

The ideal solution would be to count only the proportion of a stock that is freely floated. The snag is that most indices already include many shares with only partial free floats. The best compromise might therefore be to take the ratio of the free float of a new issue to the average free float of existing stocks in the index.

PSBR

Mr Kenneth Clarke, the UK chancellor, has long maintained that good economics is good politics. He is about to be put to the test. Yesterday's buoyant public sector borrowing figures – the government repaid £4.4bn debt in October, more than double market expectations – has re-ignited hopes of generous tax cuts in next week's Budget. And given the Tories' parlous position in the polls, Mr Clarke is under considerable pressure to deliver.

He should resist. Government finances may be better than previously believed, but they are hardly robust. The Treasury's forecast of a £26.9bn PSBR for 1996-97 is much too high for an economy close to full capacity, and nearly twice what the government was forecasting only two years ago. Tax receipts are also notoriously lumpy – yesterday's figures may be a blip rather than a trend. Furthermore, given that markets are anyway worried about incipient inflation, a Budget that further boosted robust consumer spending would meet with a savage reception. Gilt prices would fall and interest rate expectations rise, fuelling a further rally in the pound. This would hamper exports, already suffering from the recent sharp rise in sterling. Mr Clarke hardly needs telling that the combination of frothy consumer spending and a runaway pound would end in tears. He would do his supporters and the economy a favour if he took the pressure off monetary policy by presenting as restrictive a Budget as he can get away with.

Corporate governance

The idea of a unit trust investing in companies fitting the well-intentioned corporate governance recommendations of the Royal Society of Arts' report *Tomorrow's Company* does not look promising. For a start, the report is mostly far too vague to work as a credible investment guide. And even where it is more specific – for instance, on the need for companies to cultivate close relations with suppliers – it is not easy for outsiders to make a well-informed independent judgment.

Moreover, some of the report's fluffier arguments – for instance, against an exclusive focus on shareholders or over-reliance on financial performance measures – look positively dangerous from an investment point of view. Plainly, successful companies are unlikely to remain so unless they treat customers and staff constructively. But nor will they if they lack the will to cut staff costs or fire suppliers as well.

Of course, everything depends on how Kleinwort Benson Investment Management, which is launching the trust, turns the report's high-flown principles into investment decisions. The idea of a fund specifically attempting to back good management is not a silly one – especially if KBIM bases its decisions on hard analysis, for instance of productivity. But since that would have precious little to do with the more abstract thrust of the RSA report, investors would be wise to demand some real clarity over the trust's objectives before getting involved.

Additional Lex comment on Thorn, Page 25

Belgian deputy PM linked to paedophile investigation

Move to lift minister's immunity from prosecution

By Neil Buckley in Brussels

Belgium's deputy prime minister, Mr Elio di Rupo, confirmed last night that he was under investigation following newspaper claims over the weekend that he was involved in paedophile activities.

In a series of statements, Mr di Rupo yesterday protested his innocence, but admitted that the public prosecutor had lodged a request with the federal parliament for him to be charged.

That would be the first step in lifting the immunity from prosecution enjoyed by ministers.

This is the first time that the investigations into paedophile activities, which have rocked Belgium, have reached the highest levels of government. Intensive police investigations were sparked by the August arrest of Mr Marc Dutroux in connection with the kidnapping and murder of four young girls.

Public disgust with alleged bungling and cover-ups in the Dutroux case by police and judicial authorities boiled over into a mass demonstration by more than 300,000 people in Brussels last month.

Mr di Rupo said last night that the public prosecutor's move would allow him to examine the case against him, and "expose the odious character of the accusations falsely made against me.

"[This] allows me to open a field of battle, which I hope will put an end to the reign of fantasy, confusion and mixups".

Belgian police were reported to have raided two addresses in the Brussels suburbs on Friday, following a tip-off that they would find paedophile material featuring two ministers: Mr di Rupo, and a regional minister from Wallonia, Belgium's French-speaking half.

The public prosecutor's office confirmed it was examining a case involving the names of two ministers, but refused to comment further.

Mr di Rupo, who makes no secret of his homosexuality, vigorously denied allegations of offences with minors. He said he upheld the highest moral standards in his private life.

GAN chief

Continued from Page 1

urged that GAN should be privatised first. It would then spin off 49 per cent of CIC.

However, GAN is in no state to go to the market. The insurance group saw its first-half net loss this year increase to FFr965m ($190.3m) from FFr387m in the same period last year, largely because of unresolved property problems.

Despite receiving a FFr2.8bn recapitalisation by the state last year, Mr Bonnaud has indicated that GAN needs further state aid this year.

Germans flock to Telekom

Continued from Page 1

open. "We have had certain experiences in the past with the introduction of the withholding tax," he said, in an apparent reference to the heavy flow of funds to Luxembourg and other centres in recent years as investors attempted to bypass the tax. He said a final decision would be taken in about four weeks.

Proceeds from the sale of the shares will be used for the reduction of Telekom's net debts of about DM95bn.

The three global co-ordinators of the issue were Deutsche Bank, Dresdner Bank and Goldman Sachs.

One banker said the fees earned by banks participating in the distribution would amount to about 2.5 per cent of the roughly DM20bn gross receipts.

According to one banking source, Deutsche Bank handled the largest share of orders, about 20 per cent, closely followed by Dresdner Bank with a little over 19 per cent. About two thirds of the shares were sold to German institutions and individuals.

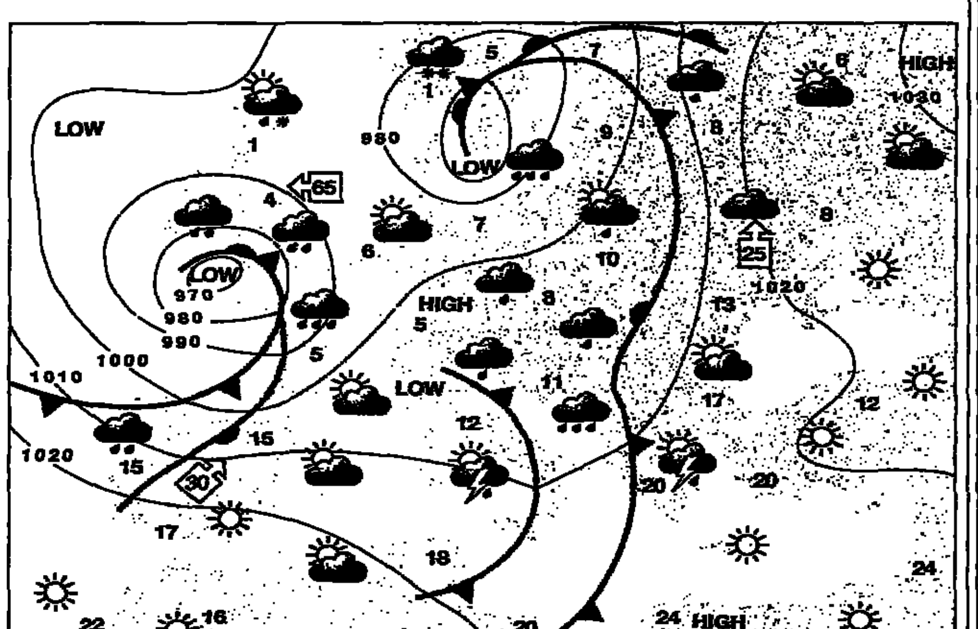
FT WEATHER GUIDE

Europe today

Low pressure south of Ireland will cause easterly gales across the Irish Sea and along the coast of England. Rain and patchy sleet will spread from the southern UK across France, the Benelux and western Germany. Winds will reach gale force across the Baltic Sea and over western France.
Over central Europe, it will be cloudy with drizzle.
Snow is likely above 1,000m-1,200m in the southern Alps.
Over south-eastern Spain and the Balearic Isles, it will be sunny.
Greece and Italy will have sunny periods and showers. The eastern Balkans will be mainly dry.

Five-day forecast

Cold and unstable air will be drawn south across the British Isles and the continent, resulting in unsettled conditions with wintry showers.
Frequent showers, some with thunder, will continue over Italy and Greece until Friday.
Northern Spain and Portugal will have rain but the south will be dry.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

		Maximum Celsius
Abu Dhabi	fair	28
Accra	sun	30
Algiers	fair	18
Amsterdam	cloudy	6
Athens	shower	20
Atlanta	sun	19
B. Aires	sun	25
B.ham	rain	5
Bangkok	fair	32
Barcelona	fair	13
Beijing	fair	9
Belfast	rain	3
Belgrade	rain	14
Berlin	cloudy	7
Bermuda	fair	24
Bogota	shower	22
Bombay	sun	33
Brussels	rain	6
Budapest	rain	12
C.hagen	rain	6
Cairo	fair	25
Cape Town	cloudy	21
Caracas	shower	31
Cardiff	rain	7
Casablanca	fair	18
Chicago	cloudy	4
Cologne	rain	6
Dakar	sun	27
Dallas	sun	28
Delhi	sun	24
Dubai	fair	29
Dublin	rain	4
Dubrovnik	rain	17
Edinburgh	shower	4
Faro	fair	17
Frankfurt	rain	6
Geneva	sleet	5
Gibraltar	sun	17
Glasgow	fair	2
Hamburg	fair	4
Helsinki	rain	8
Hong Kong	cloudy	24
Honolulu	shower	28
Istanbul	fair	17
Jakarta	fair	31
Jersey	rain	7
Karachi	fair	29
Kuwait	shower	26
L. Angeles	fair	22
Las Palmas	cloudy	22
Lima	cloudy	23
Lisbon	shower	16
London	rain	6
Lux.bourg	rain	3
Lyon	fair	8
Madeira	fair	19
Madrid	shower	8
Majorca	fair	15
Malta	thund	18
Manchester	rain	4
Manila	shower	31
Melbourne	fair	17
Mexico City	fair	23
Miami	sun	27
Milan	cloudy	10
Montreal	sun	1
Moscow	cloudy	6
Munich	cloudy	6
Nairobi	fair	25
Naples	shower	13
Nassau	sun	27
New York	fair	9
Nice	fair	15
Nicosia	fair	23
Oslo	rain	4
Paris	sleet	4
Perth	fair	22
Prague	cloudy	6
Rangoon	fair	33
Reykjavik	fair	-7
Rio	shower	33
Rome	thund	15
S. Frsco	rain	17
Seoul	sun	8
Singapore	shower	31
Stockholm	rain	9
Strasbourg	sleet	3
Sydney	cloudy	23
Tangier	sun	16
Tel Aviv	fair	26
Tokyo	fair	14
Toronto	sun	0
Vancouver	cloudy	5
Venice	shower	12
Vienna	drzzl	10
Warsaw	rain	10
Washington	fair	11
Wellington	rain	16
Winnipeg	snow	-9
Zurich	sleet	4

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday November 19 1996

IN BRIEF

Sharp profits fall at Credit Suisse

A sharp drop in third-quarter net profits of Credit Suisse, the Swiss banking group, has offset the 20 per cent growth in the first half of 1996 and resulted in unchanged profits for the first nine months of the year. Page 20

BPI in perpetual debt finance first
Banco Português de Investimento has become the first Portuguese bank to tap international markets for perpetual debt finance, borrowing Y7.5bn as part of a financing programme that could involve raising up to Es125bn ($820m) in equity capital and debt. Page 20

Investor shelves plan for US listing
Investor, the main holding company of Sweden's Wallenberg industrial empire, shelved plans to list in New York, saying it was not well known enough in the US. At the same time, the Swedish company defended the pricing this year of the SKr19.8bn ($2.98bn) initial public offering of a 55 per cent stake in Scania, the truck maker controlled by Investor. Page 20

Barlow up 15%
A strong performance by international subsidiaries helped Barlow, the South African industrial group, announce a 15 per cent rise in full year profits. Turnover was 15 per cent higher at R17.6bn ($3.8bn), despite sluggish trading at many of the South African subsidiaries. Page 21

CANTV flotation heads for success
The share offer of the Venezuelan telecommunications company, CANTV may well turn into the government's much hoped-for success story, according to preliminary figures for domestic and international orders. Figures show that demand exceeded $850m in Europe, and just below that in the US. Page 23

UK utility begins bid defence
Northern Electric, the north-east of England electricity company subject to a £766m ($1.27bn) hostile bid from Cal-Energy, a US independent power producer, said the Monopolies and Mergers Commission had no role to play in the takeover. Page 25

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Adidas	128.5	+	4.9
Rosenthal	120	+	13
SGL Carbon	189.8	+	2.8
Falls			
Bayer	57	−	1.43
Douglas	63.1	−	1.5
Schering	121	−	2.6
NEW YORK ($)			
Rises			
[illegible]	[illegible]	+	[illegible]
[illegible]	[illegible]	+	[illegible]
[illegible]	[illegible]	+	[illegible]
Tyco Toys	11¼	+	4½
Falls			
McDonn Douglas	52⅞	−	4
Sun Microsys	55	−	2⅝
LONDON (Pence)			
Rises			
Bluebird Toys	180	+	13½
Vanguard Med	595	+	55
Falls			
Colleges	82½	−	17
Forward	132	−	14½
Hadleigh	72½	−	25
Thorn	313½	−	34
TORONTO (C$)			
Rises			
Cordiant Res	8.95	+	1.73
Denison Energy	48.0	+	3.0
Macmillan Bld	11.6	+	1.0
Rosecreek	15.6	+	1.4
Falls			
Rogers Comm A	10.55	−	0.85
Spectral Diag	8.3	−	1.5

PARIS (FFr)			
Rises			
BIC	770	+	18
GTM-Entrepose	235.4	+	3.9
Geophysique	373.5	+	12.3
Falls			
AXA	297	−	4.6
Bertrand Faure	193	−	5.5
Dollfus Mieg	120.2	−	8.2
TOKYO (Yen)			
Rises			
Yasuda Scfire	948	+	20
Yomiuri Land	510	+	20
Falls			
Amada Co	957	−	21
Fujikura Elec	509	−	18
Hino Mtrs	541	−	25
Mazda Motor	476	−	20
HONG KONG (HK$)			
Rises			
Hysan Dev	28.5	+	0.85
Shaw Bros	5.1	+	0.65
Wharf Hldgs	33.3	+	0.5
Wheelock	32.7	+	0.65
Wing On	8.2	+	0.15
Falls			
Great Eagle	28.2	−	0.7
BANGKOK (Baht)			
Rises			
ODC	41.0	+	3.25
Thai Oil Chem	31.5	+	2.6
Union Pioneer	24.5	+	2.0
Falls			
Asia Credit	122.0	−	13.0
Siam Tyre Co	488.0	−	50.0
Tisco	131.0	−	13.0

New York and Toronto prices at 12.30pm.

Pechiney and Viag will pool interests

Link to form Europe's second biggest metal packaging group

Frederick Stüdemann in Bonn and David Owen in Paris

Pechiney of France and Germany's Viag are to pool their metal packaging interests to create the largest grouping in the sector in Europe after Crown Cork & Seal.

Under proposals announced yesterday, Pechiney and Schmalbach, a subsidiary of the Viag conglomerate, are to sell a 60 per cent stake in the venture to Doughty Hanson, a UK investment company and each retain a 20 per cent stake.

The companies would provide no details of the suggested transaction with Doughty for which a letter of intent has been signed.

However Schmalbach said the venture, pooling the companies' food can, general line and steel aerosol businesses was expected to generate sales of DM2bn ($1.30bn) in 1997.

Mr Hanno Fiedler, chairman of Schmalbach, said the joint venture was prompted by the wish to gain a stronger competitive position in the market. For Schmalbach, 81.4 per cent owned by Viag, the move represented a further stage in an overall restructuring of the group's portfolio of activities which also included beverage cans, plastic bottles, white cap closures and plastic packaging.

In metals packaging, Schmalbach and Pechiney had largely complementary markets, the German company said. While Schmalbach was strong in Germany, Benelux and central Europe, Pechiney was active in France, Britain, southern Europe and Japan.

Schmalbach said no decisions had been reached about the possible consolidation of production operations or job cuts. Schmalbach has 16 production locations; Pechiney has 19.

Pechiney said the deal should enable it to cut by FFr1.5bn its debt load, which stood at FFr15.8bn on June 30. This would give it greater freedom of manoeuvre when considering possible acquisitions.

The company's shares, which fell sharply after it warned of a sharp deterioration in activity and earnings in the fourth quarter, shed a further FFr2.50, or 1.3 per cent, in the declining Paris market to close at FFr193.50.

The company, chaired by Mr Jean-Pierre Rodier, has embarked on a sweeping programme of cost cuts aimed at putting its earning capacity on a footing with its strongest competitors. It warned in September that it would fall back into the red this year after provisions for this programme.

Discussions between the two companies, who have both been advised by CSFB, over the possibility of a joint venture have been running for two years. Negotiations were given new impetus by the Crown Cork & Seal deal this year to buy the Anglo-French group, Carnaud Metalbox.

Doughty Hanson was brought on board to give the new venture the necessary financial backing and provide Schmalbach and Pechiney with cash for other areas of business.

The involvement of Doughty Hanson also presents the possibility of an eventual public offering of the company.

The joint venture is now subject to approval from shareholders and the European Union competition authorities.

French group seeks higher profile for human pharmaceuticals

Rhône-Poulenc shakes up divisions

By David Owen in Paris

Rhône-Poulenc, the French chemicals and drugs group, is to reorganise its two most buoyant divisions to improve the visibility of its fast-growing human pharmaceuticals businesses.

Two businesses – the Rhône-Mérieux veterinary pharmaceuticals operation and Rhône-Poulenc Animal Nutrition – will be transferred out of the company's health unit, which will then be renamed pharmaceuticals.

The two businesses will move to the former agricultural division, which is to be renamed animal and plant health. All changes will take effect on January 1 1997.

Based on 1995 figures, pharmaceuticals will be the largest of the group's four divisions, accounting for about 35 per cent of turnover, followed by chemicals (30 per cent), animal and plant health (20 per cent) and fibres and polymers (15 per cent).

The group said the move was not a prelude to splitting its pharmaceuticals business away from the rest of the group. Mr Jean-René Fourtou, chairman and chief executive, recently said the company's share price would increase without a split. He said the quality of the group's businesses would be recognised by the market in the next two years.

Yesterday its shares – which have climbed more than FFr50 since the end of last year – shed FFr1.20 to FFr168 in a declining Paris market.

The group also announced the appointment of Mr Alain Godard, president of the agricultural division, to its executive committee. The move was seen as recognition of the sharp upturn in operating income generated by the unit this year. Mr Godard will take over in January as supervisor of animal and plant health.

The pharmaceuticals division, comprising Rhône-Poulenc Rorer, the 68 per cent-owned US drugs arm, and Pasteur Mérieux Connaught, is to be supervised by Mr Igor Landau.

Ashley Ashwood
Optimistic: Jean-René Fourtou expects the stock market to see the quality of the businesses

Confidence rewarded, Page 21

Mattel to take over Tyco Toys in $755m deal

By Richard Tomkins in New York

Mattel, the US toymaker spurned in its $5.2bn takeover bid for the rival Hasbro group earlier this year, yesterday took consolation by announcing an agreement to buy Tyco Toys for $755m.

It said Tyco shareholders would receive Mattel stock worth $12.50 for each Tyco share in a deal expected to be completed in the first half of next year. Tyco's shares had shot up $4⅛ to $11⅛ by lunchtime yesterday, while Mattel's fell $⅞ to $29⅞.

The acquisition will consolidate Mattel's position as the biggest toymaker in the US. The company had sales last year of $3.6bn, compared with sales of $2.9bn for Hasbro, the number two. Tyco was a distant third, with sales of $709m.

Mattel has a broad range of well known toys including Barbie dolls and Cabbage Patch Kids, Hot Wheels toy cars and Fisher-Price pre-school products. It also has an exclusive licence to make toys based on characters in Walt Disney films.

Tyco's main products are Matchbox die-cast cars, radio-controlled vehicles, *Sesame Street* toys and the View-Master hand-held picture viewer. It has failed to make a net profit since 1992 and had long been seen as a possible takeover candidate.

Mr John Amerman, Mattel's chairman and chief executive, said the merger would allow the two companies to integrate their manufacturing and distribution networks, providing big cost savings. It was expected to have a positive impact on earnings in the first year.

US toymakers have recently been struggling amid a dearth of successful new products and the bargaining power of Toys 'R' Us and the big discount store chains, which have replaced smaller toy stores as the main distribution channel.

One of the few growth areas has been the emergence of toys based on film and television characters, a market tapped by Mattel through its licensing deal with Walt Disney. But Mattel has also been trying to buy into new toy markets through acquisitions.

At the beginning of this year Mattel astonished the toy industry by announcing an offer to buy Hasbro, maker of the GI Joe doll and Monopoly board game, for $5.2bn in Mattel stock. But Hasbro resisted the overture and forced Mattel to withdraw it.

Yesterday's deal with Tyco appeared to be a friendlier affair, having won the approval of Tyco's board. Mr Gary Baughman, Tyco's chief executive, called the transaction "a very positive development" for Tyco's shareholders.

● Toys 'R' Us yesterday reported an increase in net profits from $21m to $33m for the quarter to November 2, continuing a profits recovery that set in earlier this year. Sales rose 10 per cent to $1.9bn.

Tosco to pay $1.4bn for west coast petrol assets

By Christopher Parkes in Los Angeles

Tosco, a leading independent oil refiner and marketer, is to pay a minimum of $1.4bn for the refineries, petrol stations and transport assets of Unocal, the West Coast group with a 12 per cent share of the Californian consumer market for petrol.

The provisional deal, announced yesterday, establishes Connecticut-based Tosco as a principal driver of restructuring in the US oil industry.

As traditional integrated groups focus on upstream activities in exploration and production, Tosco is emerging as a new force in the US retailing industry with a national network of convenience stores which sell everything from toothpaste to petrol.

Its best known retail identity is Circle K, a chain of almost 2,000 convenience stores which Tosco bought last year for $900m, when its main business was still oil refining. At the time it had just 130 stores.

Yesterday's agreement, which must be approved by regulators and shareholders, will add a further 1,350 petrol stations with general retail outlets attached, of which 1,100 are controlled by Unocal.

The will make Tosco the largest independent refiner and marketer in the US, with a daily refining capacity of more than 950,000 barrels and retail fuel sales of 12m gallons, according to Mr Thomas O'Malley, group chairman.

Tosco will also assume Unocal's position as the third-largest petrol retailer in California, and increase its presence in five other western states.

The sale, expected to be completed early next year, will include extra payments for inventories and the assumption of environmental liabilities which have yet to be assessed.

Dependent on market conditions, Unocal will also share future profits from Tosco petrol sales over the next seven years, up to a maximum of $250m.

The deal came less than a month after Unocal announced it planned to consolidate all its west coast refining and marketing interests into 76 Products Co, as a prelude to a possible sale, initial public offering or a joint venture.

Shares slide in UK's Thorn

By Christopher Price in London

Shares in Thorn fell 10 per cent yesterday after the UK rental group, which was demerged from EMI three months ago, combined news of fresh litigation moves in the US with caution over North American trading.

Sentiment was also hit by the closure last week of its first French rental store after just four hours, larger than expected provisions against the Escom computer collapse and a delay to a new customer service system.

The shares, which opened at 410p on August 19 after the demerger, yesterday dived 34p in London to 312.5p.

The spate of negative news overshadowed Thorn's first results since demerging. These showed an 11 per cent rise in interim pre-tax profits to £79.3m, before exceptionals.

However, including finance charges for the demerger and a £32.9m provision against Escom, pre-tax profits were £37.8m, against £71.5m. Turnover rose 7 per cent to £785.1m.

Mr Mike Metcalf, chief executive, said Thorn was appealing against two recent decisions by US states to class rental agreements for household appliances as credit sales.

It was too early to say what provisions might be needed in case of further defeats.

Trading in the US, where Thorn operates the Rent-A-Center chain, was "extremely competitive". "Next year's revenues will be affected . . . although it is not possible at this stage to say by how much," he said.

Thorn intends to experiment with car rental before the end of the year in the US.

It reiterated that Fona, the Danish retail chain, was "not core" and would be sold at some stage.

Thorn's first foray into France had resulted in the swift closure of the Crazy George rental store in Paris after complaints from trading standards officers. Mr Metcalf said the store would probably re-open within a week.

Earnings per share grew 10 per cent to 12p. The interim payout rises 9 per cent to 3.7p.

London Stocks, Page 34

COMPANIES AND FINANCE: EUROPE

CS Holding posts sharp fall in third quarter

By William Hall in Zurich

A sharp drop in third-quarter net profits of CS Holding, the Swiss banking group, has offset the 20 per cent growth in the first half of 1996 and resulted in unchanged profits for the first nine months of the year.

CS Holding is the last of the big three Swiss banks – the others being UBS and SBC – to report on its third-quarter operations, and its comments about a weak third quarter mirror those of its rivals. Loan loss provisions, related to the problems of the Swiss economy, remain stubbornly high and the slowdown in trading activity in the world's financial markets in the third quarter hit the group's commission and trading income.

CS Holding, which will be renamed Credit Suisse Group at the end of the year, says that its consolidated gross income for the first nine months of 1996 was 12 per cent higher than in the comparable period last year. However, it says that "with provisions for endangered credit positions still high as expected, and with costs recording a further slight rise, the net result for the first three quarters of the year was on a par with last year's".

The group, in common with the other two banks, does not disclose full third-quarter results. So analysts have to decipher the group's brief comments to get a sense of the group's performance. It said that third-quarter gross earnings from its three main sources of income – net income from balance sheet business, net commission income and trading income – were all between 3.5 per cent and 6.5 per cent below the average for the first half of 1996 but in aggregate were 18 per cent higher than the first nine months of 1995.

CS Holding's shares, which had risen nearly 6 per cent last week, fell to SFr134.75 yesterday and the general consensus was that the group's third-quarter performance was disappointing.

Mr John Leonard of Salomon Brothers in London was surprised by the buoyancy of the group's cost base, given the downturn in revenues. He is downgrading his full-year forecast from just under SFr9 a share to around SFr7.6 a share. He has also reduced his 1997 estimate from SFr10 to SFr9.3 a share.

CS Holding's profit performance at the half year stage was the weakest of the big three and its third-quarter comments suggest that it is continuing to lag its rivals. It says that it expects its operating result for 1996 to be higher than last year.

The group's full-year profits will be overshadowed by the need to take a SFr1bn ($830m) provision to cover the cost of the restructuring announced in July.

CS Holding's shares rose sharply last week on the back of various rumours ranging from the planned sale of its SFr2bn stake in Elektrowatt, the Swiss utility, to speculation that it might link up with a German bank.

Little interest in Banco di Napoli

By Robert Graham and John Simkins in Milan

The Italian government's attempt to sell off the Treasury's 60 per cent stake in the troubled Banco di Napoli got off to an uncertain start yesterday when only one bank met the deadline for expressing interest in southern Italy's most important financial institution.

Banca Nazionale del Lavoro, the Rome-based bank which is itself Treasury-controlled, registered its interest in partnership with Istituto Nazionale Assicurazione (Ina), the insurance group which has been recently privatised and has been seeking to strengthen its links with the banking system. It now has the right to look at the information being prepared on Banco di Napoli by the merchant bank N. M. Rothschild, which has been retained by the Treasury as adviser.

The bidding process is not due to be completed until December 20. Although Banco Ambrosiano Veneto and Banca Commerciale Italiana, which had both been considered likely contenders for the stake, indicated last week that they would not be entering the race, it is likely the government will act to encourage a bigger field. Analysts say would-be purchasers are staying their hand in the hope that the price is driven down, and that at least one foreign bank might enter the bidding.

But the lack of open interest underlines the plight of the Italian banking system which is still 70 per cent controlled by the state and has a record of bad debts, political patronage and poor profit.

However, Banco di Napoli has an 18 per cent share of retail banking in southern Italy and is restructuring by selling branches in northern Italy and reducing exposure in the inter-bank market. Under the rescue plan now approved by parliament, the Treasury will move some L10,000bn ($6.59bn) of bad loans to a shell company until now owned by the bank, and inject additional capital of L2,000bn.

Ina would be likely to provide most of the funds in a successful joint bid with BNL, which underwent five difficult years (blamed largely on improper loans to Iraq) before raising net profits last year by 70 per cent to L77bn.

The intervention of BNL saves the Treasury the embarrassment of declaring a lack of interest in Banco di Napoli but Mr Mario Sarcinelli, BNL chairman, insisted that BNL had a genuine interest and that it was the association with Ina that had allowed it to come forward.

Investor shelves plan for US listing

By Hugh Carnegy in Stockholm

Investor, the main holding company of Sweden's Wallenberg industrial empire, said yesterday it had shelved plans to list in New York, saying it was not well known enough in the US.

At the same time, the Swedish company defended the pricing this year of the SKr19.6bn ($2.98bn) initial public offering of a 55 per cent stake in Scania, the truck maker controlled by Investor. Scania subsequently reported a big fall in third-quarter profits. Its shares are currently about 7 per cent below the offer price of SKr180.

Mr Claes Dahlbäck, Investor chief executive, was reporting results showing Investor's net worth up from SKr51.2bn at the end of 1995 to SKr73.2bn at September 30. He said plans to list in New York would be dropped for "a couple of years".

Investor had intended to seek a US listing to reduce the big discount its shares trade at compared with its net asset value.

Its net worth at the end of September corresponded to SKr366 a share, while Investor's most-traded B-shares fell SKr1.00 to close at SKr268.50 yesterday.

Ashley Ashwood

Claes Dahlbäck: 'I don't have any regrets about it at all'

Mr Dahlbäck said the decision was unconnected with Scania's profits fall, caused by negative currency movements and delays in the introduction of a new model.

"No-one could have foreseen [these factors] at the time of Scania's listing," he said. The IPO price was based on "the best advice from the best investment banks . . . I don't have any regrets about it at all."

He said Investor should clarify the future of Saab AB, the aircraft maker. Saab's pre-tax profits fell from SKr223m to SKr64m in the first nine months. It is seeking foreign partners.

Investor's net profits jumped in the same period from SKr2bn last time to SKr11.3bn after the SKr12.4bn capital gain from the Scania sale.

BPI borrows Y7.5bn for bank takeover

By Peter Wise in Lisbon

Banco Português de Investimento has become the first Portuguese bank to tap international markets for perpetual debt finance, borrowing Y7.5bn ($67.5m) as part of a financing programme that could raise up to Es125bn in equity capital and debt.

The yen loan, organised by Bankers Trust, is part of a series of capital and debt issues planned to finance BPI's Es209.2bn acquisition of Banco Fomento de Exterior in August, which will create Portugal's fourth-largest banking group, analysts said yesterday.

A Es30.1bn rights issue of 21.5m shares at Es1,400 each closes on November 27. BPI has made no official comment on further issues, but analysts expect an offer of Es30bn-Es35bn in non-voting preference shares in early 1997 and debt issues totalling Es45bn-Es60bn.

"BPI clearly cannot finance the takeover by raising equity capital alone," a London-based broker said. "We are expecting a number of further debt issues in US dollars and escudos to follow the yen operation."

BPI is the first Portuguese bank to win the confidence of international underwriters for a perpetual debt issue, which counts as Upper Tier II capital in terms of capital solvency ratios.

This is more cost effective than the dated subordinated debt that Portuguese banks have relied on previously, because dated debt has to be amortised in the last five years before maturity.

"Perpetual debt is also a better instrument than preference shares for banks because they pay interest, which is tax deductible, on the capital they raise, instead of dividends, which are not," said a Lisbon analyst.

"The yen issue has opened up the international capital markets for other Portuguese banks to build up their capital base in this way, and we can expect similar operations in the near future," said Mr António Beck of Bankers Trust in London.

BPI estimates the goodwill generated by the BFE acquisition at Es39bn. As the bank is amortising this, its shareholder equity, excluding minority interests, is forecast to increase from Es86.2bn in 1995 to only Es89.3bn at the end of this year, despite the Es30.1bn rights issue.

● Tabacalera, Spain's state-owned tobacco group, raised its consolidated pre-tax profits 4.7 per cent over the first nine months, to Pta14.3bn ($141.1m), as extraordinary income from disposals offset lower earnings from its core tobacco business, writes Tom Burns in Madrid.

Pre-tax profits of Tabacalera's parent company, which is also responsible for the sale of stamps and official papers, rose 7 per cent, to Pta12.9bn.

Earnings from tobacco rose 9 per cent over the period, but slowed in the third quarter when it did not pass tax increases on to consumers.

EUROPEAN NEWS DIGEST

Bertelsmann and Mitsui in deal

Bertelsmann, the German media group, and Mitsui, the Japanese trading company, will today announce a joint venture in electronic media content publishing based around the Hamburg-based firm T1 New Media. Mitsui will take a 35 per cent stake for an undisclosed amount. Mr Florian Lahnstein, T1 managing director, said the deal gave them complementary distribution access to markets in Asia and Europe. A further reason was the strengthening of a three-way link up between Bertelsmann, Mitsui and America Online, the US online service company. Bertelsmann is AOL's European partner while Mitsui is AOL's Asian partner.

Frederick Stüdemann, Bonn

CME increases US share offering

Central European Media Enterprises (CME), the US pioneer of private commercial television in east Europe, has increased its US share offering from 4.8m to 5.5m shares raising gross proceeds of $152m. The group is expanding its Polish operations and is entering mobile telecommunications in Romania. Proceeds will also be used to develop the three television stations launched during the past 12 months in Romania, Slovenia and Slovakia.

CME said that TVN, its joint venture company in Poland, had exercised its option to increase its holding in TV Wisla, the troubled television broadcaster in southern Poland, from 3 per cent to 49 per cent. The station reaches 7.8m viewers. In recent weeks TVN has also been awarded nine television frequencies for northern Poland plus Warsaw and Lodz, opening the way to reaching an additional 7m people in Poland.

Mr Leonard Fertig, CME chief executive, said the two operations were the first steps in developing a national network in Poland. CME holds a 33 per cent stake in TVN with 67 per cent held by ITI TV holdings, the Polish media group.

Kevin Done, East Europe Correspondent

Tadiran sharply ahead

Tadiran, Israel's largest electronics company, reported a five-fold rise in net income for the first nine months following a sharp increase in sales and restructuring costs. Earnings per share increased 85 cents to $4.24. Net income, including capital gains of $33.7m as a result of the initial public offering of Tadiran Telecommunications, its subsidiary, on Wall Street earlier this year, rose from $16.6m to $83.1m. Sales increased from $246.3m to $267.5m. Net income for the last quarter, excluding capital gains, rose 9 per cent from $10.6m to $11.5m.

Judy Dempsey, Jerusalem

Winterthur in Belgian merger

Winterthur, the Swiss insurance group, is merging its Belgian subsidiary with Josi, the Belgian insurer, to create Belgium's sixth-biggest insurance company. The Belgian unit Winterthur-Europe is buying 97.85 per cent of Josi including a 30 per cent stake held by Cobepa, the Belgian holding company, for an undisclosed sum. At the same time, Josi and Cobepa will put BFr4bn ($128m) into a capital increase of Winterthur-Europe, leaving them respectively with 9.6 per cent and 4.8 per cent of the merged group. The new operation will have turnover of about BFr26bn – equivalent to a share of more than 5 per cent of the Belgian market.

Neil Buckley, Brussels

Karstadt's sales unchanged

Karstadt, the German retailer, said group sales were DM19.12bn ($12.7bn) in the first nine months, unchanged from the same period last year. The company said full year earnings would be lower than the DM109m net profit posted for 1995. Turnover at the parent company rose 8.8 per cent to DM9.313bn.

AFX News, Essen.

Sophus Berendsen in electronics loss

Sophus Berendsen, the industrial group whose main asset is a 36 per cent share-holding in the UK's Rentokil, said earnings before profits from shares in associated companies will be cut from DKr257m in 1995 to about DKr145m ($25m) this year owing to a loss of DKr30m-DKr40m in the electronics and data division. In the first half of the current year profits excluding associated companies were DKr107m on turnover of DKr3.30bn. Total group first half profits increased from DKr386m to DKr444m.

Hilary Barnes, Copenhagen

Rhône-Poulenc is starting to repay investor confidence

The French pharmaceuticals and chemicals company's shares have soared more than 50% in less than 12 months

These are heady days for Rhône-Poulenc. In January its shares stood at just FFr104.90 – 28 per cent below the FFr146 paid by institutions in the second stage of the pharmaceuticals and chemicals company's privatisation almost three years ago. But this year the shares have powered ahead to FFr158.40 – a gain of more than 50 per cent in less than 12 months.

The group – so long a byword for disappointment among French company watchers – is at last starting to repay a small part of long-term investors' faith. But does this 1996 bull-run mean the company has put the worst of its troubles behind it – as Mr Jean-René Fourtou, Rhône-Poulenc's ever-optimistic chairman claims – or is it just a happy interlude before the share price reverts to type?

The straightforward way of looking at this year's increase is as a mechanical reaction to the spurt of more than 30 per cent registered by Rhône-Poulenc Rorer, the group's 68 per cent-owned US drugs arm.

As a recent Goldman Sachs report pointed out, the market capitalisation of Rhône-Poulenc's stake in its US subsidiary amounts to well over 60 per cent of the market capitalisation of the entire group. It also represents close to 100 per cent of the market capitalisation of Rhône-Poulenc at the end of last year. Had the French group's shares not budged at all, the market would be valuing its businesses outside RPR at next to nothing.

Jean-Pierre Tirouflet

Analysts point to several reasons for RPR's buoyancy.

- The company is beginning to benefit from a number of favourably received new products, in particular Taxotere, an anti-cancer drug launched in the US in June.
- The cost savings from last year's £1.acquisition of the UK's Fisons are starting to come through.
- The company has developed a clearer focus, concentrating on six therapeutic areas, including treatments for asthma, thrombosis and diseases of the central nervous system. Mr Fourtou says the Fisons deal acted as a catalyst for this process by "giving us a pretext for sorting out a number of things". He adds: "The effect induced by Fisons was almost as important as Fisons itself."
- The whole pharmaceuticals sector has experienced a re-rating.

Given Rhône-Poulenc's appalling record, however, and the extent of the gains already racked up, prospective investors may be worried they have already missed the boat. Those who have already bought the shares, meanwhile, may have one eye on the company's debt, which in spite of clever juggling by Mr Jean-Pierre Tirouflet, finance director, remains burdensome. James Capel estimates it at about FFr36bn ($7bn), giving the company gearing of 69 per cent.

The advice from many analysts is to sit tight.

Their reasoning is usually based on the low valuation the market is still according Rhône-Poulenc's other businesses after RPR has been stripped out. They suggest this stems from the mistaken perception that all that remains is a mediocre chemicals business. In fact, they say, the rump also includes a cyclical fibres business and sound human vaccines, animal nutrition, veterinary pharmaceuticals and crop protection operations.

According to Mrs Jenny Barker, a London-based analyst with UBS, the enterprise value (market capitalisation plus net debt including pension provisions) of these businesses is currently about 80 per cent of 1995 sales of some FFr66bn. "That places it only a little bit higher than commodity chemicals companies but well below mixed companies such as Akzo Nobel, Hoechst and Bayer. I think it should be valued at 100 per cent of sales. That means you can justify a share price of FFr200 without too much difficulty – even assuming no further increase in the RPR share price."

Another French analyst argues that a price of FFr180-FFr185 a share is a more realistic short-term target. "The biggest part of the increase is past", he says. "But the shares merit a premium to Hoechst and Bayer because Rhône-Poulenc has a greater proportion of its business in life sciences."

On the basis of a 1997 earnings forecast of about FFr11 a share, a FFr200 price level would put the French company on a price-earnings multiple of 18, similar to some continental European drugs groups. Many would probably regard such a rating as too high given a debt load that Mr Fourtou acknowledges is higher than "all our colleagues in the same category".

But the fact that a respectable case can be made for such a strong continued run-up in the share price may at least serve to reassure investors, particularly since it assumes neither a marked improvement from chemicals nor any further strong advance by RPR.

The relaxed reaction of investors and analysts to the recent product recall affecting RPR's Centeon joint venture with Germany's Hoechst may provide further reassurance. A year or two ago, such a setback might have undermined fragile confidence in the company.

Holding court in a company dining room, Mr Fourtou – now 10 years at the helm – certainly seems a picture of confidence.

David Owen

International growth helps Barlow rise 15% in year

By Mark Ashurst in Lusaka

Strong performances by international subsidiaries helped Barlow, the South African industrial group, to a 15 per cent rise in full-year profits.

Turnover was 15 per cent higher at R17.8bn ($3.8bn), despite sluggish trading at many of the South African subsidiaries.

Earnings per share for the year to September 30 increased 27 per cent from 260 cents to 329 cents. The final dividend was 72 cents, bringing the total for the year to 105 cents. Analysts said the results were at the upper end of expectations.

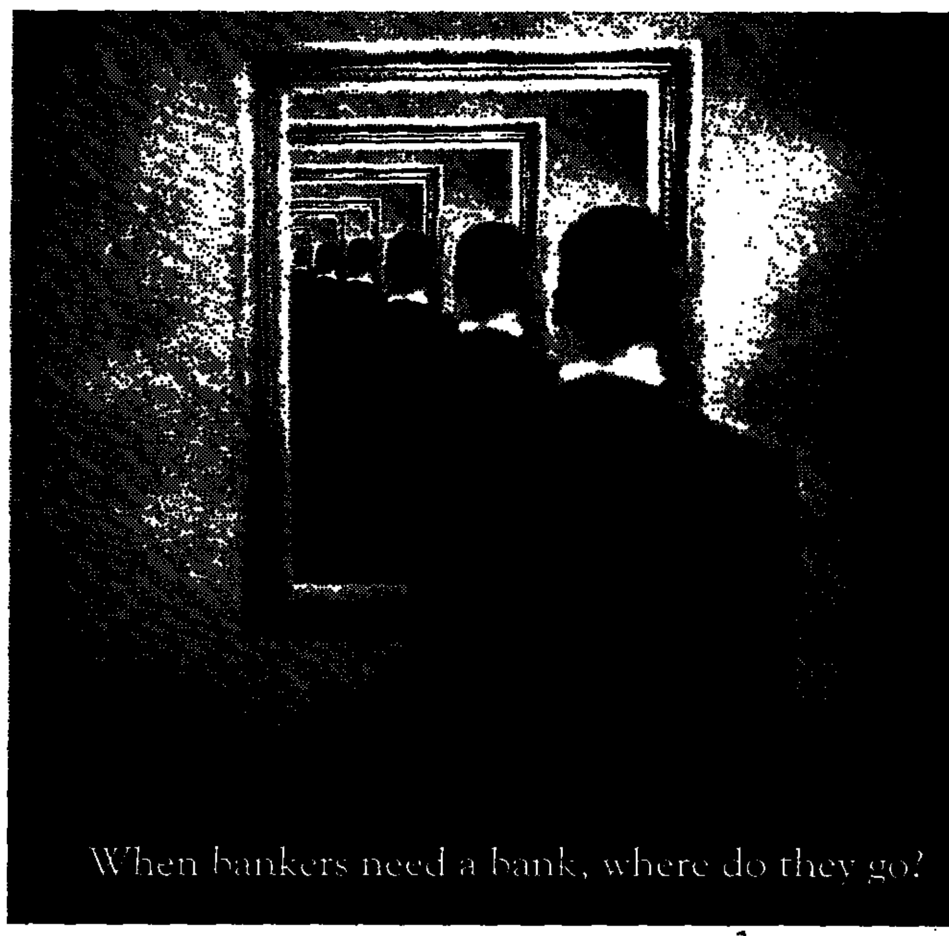
Earnings in foreign currencies contributed 25 per cent to the bottom line, compared with 20 per cent a year ago. In rand terms, this year's sharp devaluation of the South African currency boosted foreign earnings by 59 per cent. Mr Warren Clewlow, chairman, said Barlow was "moving to a point where we will be perceived as a rand hedge".

Operating profit increased 15 per cent from R843m to R969m, but a lower tax charge boosted after-tax profits by a quarter from R618.2m to R781.3m.

More than half the group's turnover was generated by industrial interests, but the construction downturn slowed sales at Federated-Blaikie, the building materials retailer.

Rising sales of earth-moving equipment to Angola, Malawi, Mozambique and Zambia augured well for regional development, said Mr Clewlow. "There is a huge market in Southern Africa and the stirrings are definitely there."

Pretoria Portland Cement increased net profits marginally, despite static demand.



Handset sales help Kyocera advance 14%

By Daniel Bögler in Tokyo

Rising demand for its mobile phone handsets helped Kyocera, the Japanese high-performance ceramics and electronic components group, to another strong set of results.

Consolidated operating profits increased 14 per cent, to Y64bn ($576m), in the six months to September, on sales up 12 per cent at Y355bn. Pre-tax profits declined 40 per cent to Y61bn, largely because of the absence of last year's extraordinary profit. A year ago Kyocera booked a large capital gain on the partial flotation of AVX, its US offshoot. The company is raising its dividend 20 per cent, to Y30 a share.

The best performance came in the telecoms division, where turnover jumped more than half, to Y99bn. Kyocera is Japan's third-largest manufacturer of handsets, both for cellular phones and personal handy service (PHS) phones, a popular low-cost alternative. The group is a big supplier to – and owns a 21 per cent stake in – DDI, the main challenger to NTT in mobile and long-distance telephony.

The semiconductor division suffered a 3 per cent drop in sales, to Y65bn. But Kyocera, which supplies about 70 per cent of the world's integrated-circuit ceramic packages, remains comparatively insulated from the huge swings in prices that have hurt volume chipmakers.

Sales of electronic components, such as capacitors and connectors, as well as information equipment including printers and tele-conferencing equipment, also dropped slightly, as a result of weak domestic demand.

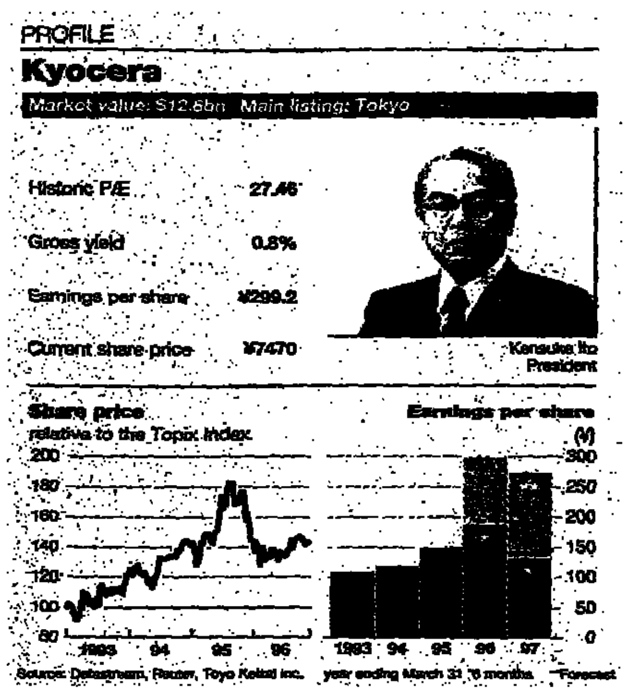
By contrast, fine ceramics and optical fibres increased turnover 11 per cent, while the group's consumer-related division, spanning bioceramic products such as artificial bones, cutting tools and solar batteries, recorded a 22 per cent advance in sales.

Because of its strong market positions, particularly in ceramic packages, Kyocera is one of Japan's most profitable companies, with an operating margin of more than 18 per cent, compared with an industry average of about 3 per cent.

Return on equity last year was more than 9 per cent, and the company is in a strong financial position, with cash resources of Y300bn and little debt.

Kyocera marginally raised its full-year forecasts at the parent level in view of more favourable exchange rates. It now expects a 13 per cent rise in sales, to Y536bn, and a 10 per cent increase in pre-tax profits to Y108bn.

However, analysts warned of a deteriorating outlook for the group, as slowing growth and increasing competition were starting to put pressure on prices of mobile phone handsets.



HM Sampoerna rating reaffirmed

By Manuela Saragosa in Jakarta

Debt at Hanjaya Mandala Sampoerna, the Indonesian clove cigarette manufacturer, has been removed from Standard & Poor's creditwatch with negative implications list. The decision reflects renewed confidence in the company following the sale of its stake in Astra, the cars-to-plantations conglomerate.

S&P said Sampoerna's rating outlook was "stable" and affirmed its "BBB+" credit rating for the company.

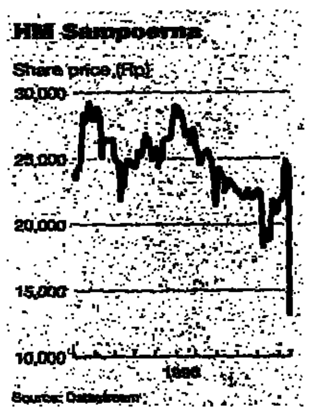
The company's debt was placed on creditwatch last month after it bought a minority stake in Astra along with Sampoerna's majority shareholder, Mr Putera Sampoerna. That led to concerns that Mr Sampoerna was using the company as an investment vehicle for his own purposes.

HM Sampoerna management has since acknowledged that it terminated its plans to take a controlling stake in Astra, because of opposition from minority shareholders.

Mr Sampoerna has revealed that he and his family have built up a 15 per cent stake in Astra as part of an informal consortium.

The consortium, which together controls about 50 per cent of Astra, includes Mr Bob Hasan, the timber tycoon, who indirectly controls 10.61 per cent of Astra; Mr Anthony Salim, the businessman, who controls 7.37 per cent; Mr Prajogo Pangestu, a timber tycoon, with 10.68 per cent; and Mr Usman Admajaja, chairman of Bank Danamon, with a 7.33 per cent holding.

Shares in HM Sampoerna ended 8 per cent up, at Rp13,200, yesterday, helped by a stock split and S&P's rating affirmation.



ASIA-PACIFIC NEWS DIGEST

ABN Amro to buy Lloyds Bank NZA

The National Bank of New Zealand, which is wholly owned by Britain's Lloyds-TSB, said yesterday it was selling its Lloyds Bank NZA offshoot to the Dutch-owned ABN Amro bank. No purchase price was disclosed. The sale, which is subject to regulatory approvals, is not expected to be finalised until early in the New Year.

Lloyds Bank NZA is based in Australia and was an offshoot of Lloyds Bank before its merger with the TSB group. Although wholly owned by National Bank, it is small in comparison with its parent, one of the country's largest banks. It made an after-tax profit of NZ$11.8m (US$8.33m) in 1995, while National Bank returned a profit of A$158m (US$124m).

ABN Amro Australia, wholly owned by its Dutch parent, has an established presence in Australia. It is chaired by Mr John Hewson, the former Liberal Party leader, and reported a 19.6 per cent rise in pre-tax profits, to A$28.2m, in 1995, with revenues reaching A$53.7m.

Nikki Tait, Sydney

Palmer reduces ANI stake

Mr Ross Palmer, a former director of Australian National Industries, the troubled heavy engineering group, yesterday sold the bulk of his 5.43 per cent stake in the company.

Mr Palmer confirmed that his private company, Tube Securities, disposed of 40m shares through the market. ANI's share price closed one cent higher, at A$1.27, on the news. In early September, Tube held around 42.7m shares, or 5.43 per cent, acquired when ANI took over Palmer Tube Mills for about A$190m two years ago. Mr Palmer said Tube would retain its residual holding.

The sale follows a bitter boardroom rift between Mr Palmer and Mr Peter Joseph, another ANI director. After a marathon annual meeting last month, institutional shareholders came down on Mr Joseph's side, and Mr Palmer lost his board seat. Yesterday, Mr Palmer said he could "do no more for the company".

"While ANI has some outstanding underlying businesses, the board's inability to face its own poor record and the reluctance of its major shareholders to deal appropriately with that board means that Tube is longer prepared to be a substantial shareholder," he said.

Nikki Tait

Boral 'in line with budget'

Boral, the Australian building products and energy group, told shareholders yesterday that operating profit for the first four months of 1996/7 had been "in line with budget", although about 20 per cent down on last year. It said this reflected a substantial recovery from the "extremely disappointing result" in the second half of 1995/6. If the forecast improvement in the housing industry occured next year, "second-half profit should be well above the corresponding period in 1995/6". In 1995/6, Boral's profits after tax fell 30 per cent, to A$205.7m (US$162.5m).

Nikki Tait

BNI float oversubscribed

Shares in Bank Negara Indonesia, the state-owned bank due to be listed on Indonesia's stock market later this month, have been oversubscribed 4.5 times by local and foreign investors.

Of the 1.1bn shares offered, 43 per cent was allocated to foreign subscribers, with the remaining 57 per cent for local investors. Last month, the shares were priced at Rp850 each, which puts the bank on a price earnings ratio of about 8.6 for next year, roughly in line with the Indonesian banking sector's average.

BNI, Indonesia's only privatisation this year, plans to float 25 per cent of its enlarged share capital on November 25.

Manuela Saragosa, Jakarta

Marubeni forms steel venture

Marubeni Corporation of Japan has formed an alliance with Apeejay, the Indian shipping, tea and property group, to build a 660,000 tonne-a-year capacity steel plant at Durgapur in West Bengal.

Marubeni, which will be the minority partner in the joint venture, will supply technology for the project. It will also arrange foreign loans of $133m to cover the cost of importing machinery and services. The loans will be repaid through export of 100,000 tonnes of billets a year. The project will cost Rs14bn ($392m).

Kunal Bose, Calcutta

Ingwe completes CMAL buy

Ingwe Coal Corporation of South Africa, the world's third-largest privately owned coal group, has completed the purchase of Coal Mines Australia (CMAL) from AMP Investments, part of the large life insurance group, and CMAL's management. The AMP stake – which represented 96.3 per cent of the equity – was bought for A$85.4m (US$67.5m).

CMAL has interests in the New South Wales coal industry and is expected to produce about 4m tonnes in 1996. It includes the Wallarah, Chain Valley and Moonee underground mines, and an 85.5 per cent stake in the Bayswater Colliery joint venture.

Nikki Tait

Coca-Cola Amatil warns

Coca-Cola Amatil, the Australia-based soft drinks group, has warned that trading results over the past three months did not achieve expectations and that after-tax profits for 1996 would show "little change" from 1995's result.

It attributed the shortfall partly to its aggressive expansion which had "cost and profit implications, particularly in Europe". The subdued retail environment in Australia had also been unhelpful. Last year, CCA – in which the US Coca-Cola group holds a minority stake – made an after-tax profit of A$138.6m (US$109.5m).

By contrast, Goodman Fielder, Australia's largest food manufacturer, said that falling wheat prices should allow it to post double-digit growth in pre-abnormal profits in 1996/7. The company added that it still expected a relatively flat first-half, but was looking forward to a much stronger second six months.

Nikki Tait

Loctite rejects $1.2bn Henkel bid

By Richard Waters in New York

Loctite, the US adhesives and sealants company, yesterday rejected a $1.2bn takeover bid from Henkel, the German chemicals group, setting the stage for an auction of the company to the highest bidder.

Loctite's move put it in conflict with its biggest shareholder and set up a rare confrontation between a German and a US company.

With its long-standing 35 per cent interest and much to gain from a full merger, however, Henkel remains in a strong position to win control.

Yesterday's move by Loctite was its first since the German company revealed last month it wanted to buy the rest of the company. Earlier this month, it followed up with a cash tender offer of $57¾ for each of the shares it does not already own.

A special committee of Loctite's directors had been formed to consider the offer. The company said yesterday that this committee had voted unanimously to reject the bid, and would "seek to sell the company at a price that fully reflects its value".

Loctite's shares were at $60¾ in early trading yesterday, having crept above the Henkel bid price in recent days on hopes that the German company would be forced to increase its offer or that a rival approach would emerge.

Henkel's offer is already higher than the $56 a share it had initially indicated in a private approach it would be willing to pay.

The current offer values Loctite at around 21 times the company's expected 1996 earnings and 18 times estimated 1997 earnings.

Since Henkel first disclosed its interest in taking control of the company, the US company's shares have risen by 30 per cent.

Loctite said, however, that the offer did not reflect the company's prospects and that it had been judged inadequate by Dillon Read, which had been hired to review the price.

The US company also complained that Henkel's offer did not pass on any savings or other benefits from combining the two company's businesses.

Henkel said yesterday it had no comment.

Weak Italian market hits Fiat performance

By John Simkins in Milan

Fiat, the Italian industrial and automotive group, yesterday released for the first time results covering the first nine months of its financial year, which showed that it continued to be hit by the depressed domestic car market.

The company, under chairman Mr Cesare Romiti, said that it had decided to give sales and pre-tax profit figures for the first three quarters to supply investors with more information and keep in line with international standards.

But, by releasing the results, Fiat could strengthen its hand in pressing the government to provide incentives to stimulate the car market. The pressure on profits will also underline Fiat's argument – and that of other companies in the engineering sector – that they cannot afford to meet the demands of the metal-workers' trade unions in the stalled national negotiations.

The group's consolidated sales were L57,918bn ($38.17bn), up 4 per cent on the first nine months of last year, while pre-tax profits fell from L2,743bn to L1,759bn. Operating margins fell from 4.5 per cent to 2.9 per cent. Margins were 1.1 per cent in the third quarter, after being nearly 5 per cent in the second quarter and 2.5 per cent of the first.

Mr Nick Potter, of Credito Italiano in London, said the low operating margin was not surprising. "It reflects the weak demand in the domestic car market in the third quarter which was not offset by a good performance in other European markets."

Fiat said it was feeling the effects of weakening demand for commercial vehicles caused by stagnant capital spending and the strengthening of the lira, and that it had acted to reduce output. The company plans to lay off up to 24,700 workers next month and cut output by about 20,000 cars.

Fiat said fourth-quarter figures would benefit from the recent US stock market placement of more than 30 per cent of New Holland, the London-based agricultural and construction equipment arm, and the sale of Prime, the investment fund, to Assicurazione Generali.

Cesare Romiti: his group says it cannot meet wage demands

In its core car market, Fiat Auto sold 1.74m units in the first nine months, up 5.2 per cent, increasing exports to other European markets by 24 per cent against a market growth of 8 per cent. The Iveco commercial vehicle subsidiary increased sales only 1 per cent.

CANTV sale makes encouraging start

The share offer by the Venezuelan telecommunications company CANTV – one of the largest in Latin America this year – may well turn into the government's much hoped-for success story, according to preliminary figures for domestic and international orders.

Figures released at the weekend by Mr Alberto Poletto, head of the Fondo de Inversiones de Venezuela, the government privatisation agency, show that demand exceeded $350m in Europe, and just below this in the US. Mr George Soros, the financier, is said to have placed an order of $140m through affiliates in New York, Buenos Aires and Caracas. Buy orders can be placed until tomorrow and pricing is scheduled for Thursday.

"We've been pleased with the response so far and it's all green lights for this to be a success," said a representative of Lehman Brothers, the global lead manager along with SBC Warburg.

While Mr Poletto hoped the apparent demand could push the sale price above the upper reference price, most traders thought that it would more likely be in the price range of between $3.07 and $3.50 a share.

The apparently solid demand on global markets for the offering of 289m shares helped dispel concerns that the virtually simultaneous share offer by Deutsche Telekom could interfere. "I don't think it's a concern. They are two entirely different companies in economies each with a different outlook," says one analyst in New York.

Another investor, speaking after last week's road show in Boston, said: "There's not much out there in terms of Venezuelan equity and I think CANTV is somewhat of an opportunity here."

Indeed, several analysts suggest that international markets appear to be looking at Venezuela's country risk and economic prospects more than the company itself. "You're really buying Venezuelan risk," says Mr Miguel Soto, a trader with Cargill Financial Services International in Caracas. "The company's financial situation is fine and management has been doing a good job in recent years."

He adds that investors are aware, but not worried, that the company's fixed-line monopoly ends in 2000. "They're already competing successfully in other areas of the telecom sector."

A successful CANTV offer would send a signal to foreign investors about the government's commitment to further privatisation and structural reform. Yet, in a difficult political landscape, the government was equally concerned about the response to the sale by Venezuelans, and was satisfied when the last retail orders were logged into the central computer in Caracas.

Despite Venezuela's underdeveloped securities market and outdated legislation – which requires a hard copy of the purchaser's signature and thus prohibits telephone orders – the domestic retail market showed strong demand for CANTV shares.

According to Mr Agustin Cangas, president of Merinvest, one of the two local lead managers, a preliminary tally of retail orders totalled $170m. He expects this to exceed $200m when all orders placed during the two weeks of book-building that ended last Friday are counted.

"Retail investors have ordered nearly twice the 30m shares originally earmarked for that investor category," Mr Cangas says.

He adds that demand is being driven by falling domestic interest rates and unprecedented currency stability. Yields on central bank stabilisation bonds have fallen to 21 per cent with an average inflation rate of 3-4 per cent a month, while the bolivar has appreciated 37 per cent in real terms since it was floated in April.

Other analysts attribute the strong retail demand to the government's generous incentives, designed to celebrate privatisation as a success for Venezuela. "The government really needed this to be a success, and telecommunications companies lend themselves to popular participation schemes because people feel they have a stake in them," says one analyst in Caracas.

Institutional investors have been slower to place orders. "They're taking a pulse of demand before placing an order," says Mr Luis Sosa, at brokers Bancaracas. Unlike retail investors, institutional buyers were offered no incentives to place orders early.

Traders admit they are not sure what to expect from domestic institutional investors before book-building ends. "We were anticipating to place some 20m shares among institutional investors, but we could see massive last-minute demand," says one.

Raymond Colitt

HSBC to advise on Polish bank sale

By Christopher Bobinski in Warsaw

HSBC, the UK-based investment bank, has been chosen as lead adviser on the long-delayed privatisation of Poland's Powszechny Bank Kredytowy.

PBK is one of nine commercial banks hived off from National Bank of Poland, the central bank, at the start of market reforms seven years ago.

The sale, expected around the middle of next year, will include an offer of 65 per cent of the bank's equity to a strategic investor or group of institutions. This is to be followed by an offer of a further 15 per cent via the Warsaw Stock Exchange.

PBK was Poland's seventh-largest bank at the end of last year, measured by its 411m zlotys ($145m) capital. PBK's 121m zlotys net profit last year gives it a market value of about $350m, according to current price/earnings ratios for Poland's listed banks.

HSBC is to be backed by Arthur Andersen, the international accounting firm which is PBK's auditor, and by Amhurst Brown, the London-based law firm. Poland's Export Development Bank is to handle the sale of equity on the Warsaw bourse.

HSBC, which won the contract against competition from CS First Boston, Rothschild, Lehman Brothers and Citibank, is a veteran of Polish bank sell-offs. Last year it piloted the sale of Bank Gdanski, now controlled by the local Bank IG, and before that it advised on the privatisation of Bank Przemyslowo Handlowy.

A residual 35 per cent Treasury-held stake in Bank Gdanski is to be offered to investors in the first quarter of next year, the finance ministry has said.

The beginning of next year will also see the sale of Polish Investment Bank and Prosper Bank, two commercial banks owned by the NBP. The government has also said that next year should see it selling stakes in Bank Handlowy, the country's second-largest bank, and in Bank Zachodni, based in Wroclaw.

GE Electric, the financial services arm of the US power and engineering conglomerate, has indicated strong interest in acquiring a stake in a big Polish bank and has often been mentioned as a suitor for PBK or PBI. But the government may chose to sell the PBK stake to a local group of banks including the listed Kredyt Bank.

AMERICAS NEWS DIGEST

Kellogg to buy bagel business

One of the biggest US bagel manufacturers is to change hands with yesterday's announcement that Kellogg, the US breakfast cereal company, has agreed to buy the Lender's bagel business from Kraft Foods for $455m. The transaction is due to be completed by the end of the year.

Lender's, based in White Plains, New York, is said to be the biggest US maker of frozen, refrigerated and fresh bagels, with plants in New York, Connecticut and Illinois. The price being paid by Kellogg is 1.65 times its annual sales of $275m. Kellogg's shares were down $¼ at $68 in early trading yesterday.

Kellogg, which has been suffering badly from a price war in the US breakfast cereal market, described the acquisition as "a perfect fit" for its convenience food business, comprising products such as Pop-Tarts toaster pastries, Eggo frozen waffles and Nutri-Grain cereal bars.

For Kraft Foods, the food division of Philip Morris, the US tobacco company, the disposal comes as the latest in a long series of disposals of low-margin, non-core businesses, and completes the division's exit from the bakery category. Last year it sold its Entemann's bakery business to CPC International, another US food group, for $865m. *Richard Tomkins, New York*

Strong advance at Loblaw

Loblaw, Canada's biggest food distributor and controlled by the Weston family, posted an 18 per cent gain in third-quarter earnings and said the fourth quarter would also be strong. Net profit was C$45.5m (US$34m), or 19 cents a share, in the three months to October 5, up from C$38.6m, or 16 cents, on revenues up 7 per cent at C$3.1bn against C$2.9bn. Weston Canada operations were the strongest. *Robert Gibbens, Montreal*

Closures at Lockheed Martin

Lockheed Martin, the US aeropsace and defence group, says it will close eight plants to generate annual savings of $300m by 1999. The eight new plant closures, together with previously announced savings from consolidations within the company's Loral Corp division, will bring total savings of $2.6bn a year by 1999, according to Mr Norman Augustine, chief executive.

The closures will eliminate 2.5m square feet of excess capacity and entail 1,600 job cuts, although the jobs reduction will be offset by the creation of new positions at other Lockheed Martin sites, the company said. It said there would be no charge to 1996 earnings as a result of the closures, which it expects to complete during 1988. *AFX News, New York*

Fountain Oil in Ukraine deal

Fountain Oil, the US group, said yesterday it had entered into a venture with Ukranafta, the Ukraine state oil company, to further develop the Stynawske oil field in western Ukraine. The company said it would have a 45 per cent participation in the venture, with Ukranaffa holding 55 per cent. Independent reservoir engineers have estimated that the Stynawske oil field has remaining proven reserves of 14m barrels, Fountain Oil said.

Fountain will pay a maximum of $1m in cash, and issue 580,000 common shares. Half of the cash and 30,000 shares have previously been paid.

Fountain said the remaining cash payment, along with 175,000 shares, was now due with the signing of the joint venture agreement. The issuance of the remaining 375,000 shares is subject to the project achieving production level targets. As of August 31, the company had capitalised about $1.325bn of expenses and acquisition costs associated with the Stynawske field project.

The Stynawske oil field is located within Europe's oldest oil producing region, and is in near other substantial producing oil and gas reservoirs and two refineries. West Ukraine's largest petrochemical complex, at Kalush, is also nearby. The refineries, petrochemical plant and the various oil and natural gas fields are connected by an extensive pipeline grid.

The field currently produces about 280 barrels of oil a day from reservoir depths ranging from 3,100m to 5,100m. Individual wells had initially produced at rates up to 470 barrels daily.

The current producing reservoir covers more than 6,000 acres, and contains two sections each with 100m gross thickness. *Reuter, New York*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 18.11.96 Pool purchase price £/MWh	Final Prices for trading on 22.10.96 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.02	11.64	11.64
0100	18.02	11.63	11.63
0130	36.38	11.63	11.63
0200	36.38	11.63	11.63
0230	36.38	11.63	11.63
0300	36.38	11.63	11.63
0330	36.38	11.63	11.63
0400	36.38	11.63	11.63
0430	36.38	11.63	11.63
0500	16.74	11.63	11.63
0530	11.72	11.64	11.64
0600	16.19	11.64	11.64
0630	16.26	11.64	11.64
0700	16.80	15.81	17.61
0730	16.91	17.42	19.71
0800	17.41	34.26	37.37
0830	17.99	35.61	38.90
0900	19.86	36.00	39.42
0930	21.20	21.17	24.36
1000	22.44	21.17	24.34
1030	23.32	20.86	23.94
1100	24.77	20.69	23.74
1130	27.23	21.58	24.90
1200	30.65	33.31	36.86
1230	31.45	32.82	36.20
1300	32.58	31.39	34.38
1330	30.88	18.95	21.48
1400	30.67	18.29	20.61
1430	29.08	17.91	20.12
1500	28.50	17.65	18.78
1530	31.42	17.65	19.79
1600	71.45	18.38	20.78
1630	250.58	20.73	23.92
1700	473.57	23.33	27.27
1730	518.58	26.10	30.71
1800	380.82	31.90	36.33
1830	141.78	61.17	74.11
1900	58.48	94.55	109.42
1930	35.41	90.44	104.45
2000	22.29	46.06	54.35
2030	18.50	28.85	32.86
2100	17.38	24.79	27.40
2130	18.95	15.70	18.54
2200	16.87	16.33	18.14
2230	18.45	18.30	18.08
2300	16.45	16.29	18.08
2330	16.45	16.29	18.08
2400	16.45	11.66	11.66

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of such prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0118 945 6780 between 8.30am and 5.15pm Monday to Friday.
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COMPANIES AND FINANCE: THE AMERICAS

Endesa targets Brazil utility

By Tom Burns in Madrid

Endesa, the government-controlled Spanish utility which last month launched agreed bids to raise its ownership of the domestic power groups Sevillana and Fecsa, is seeking to increase its presence in Latin America. It wants to take over Brazil's Sociedad Electrica de Rio de Janeiro (Serj) in a purchase valued at $600m.

The decision to bid for Serj, as the main partner in a consortium that includes Portugal's EDP and Chile's Chilectra, is a signal that Endesa intends to maintain a dual strategy of diversifying abroad while strengthening its presence at home.

Serj is due to be privatised at an auction tomorrow and the Endesa-led consortium is one of several bids that are understood to have been entered for the Brazilian company.

The aggressive acquisition policy comes ahead of Endesa's privatisation, which is scheduled for next year when the government plans to sell about 20 per cent of its 66 per cent shareholding in the company.

The government plans to privatise Endesa fully by the end of 1999.

In a move to increase its appeal to investors, Endesa has entered bids totalling $1.56bn to raise to 75 per cent its equity in Sevillana, where it holds a 39 per cent stake, and in Fecsa, where it holds 49 per cent. In addition to increasing Endesa's earnings, these acquisitions will consolidate the group's position as Spain's dominant electricity generator and distributor.

Endesa's foreign ambitions were thwarted recently when talks to gain a controlling stake in Chile's Enersis, the holding company that controls Chile's main electricity supplier, broke down. This purchase, valued at about $1bn, was to have been the group's largest Latin American acquisition and the backbone of an ambitious expansion in the region.

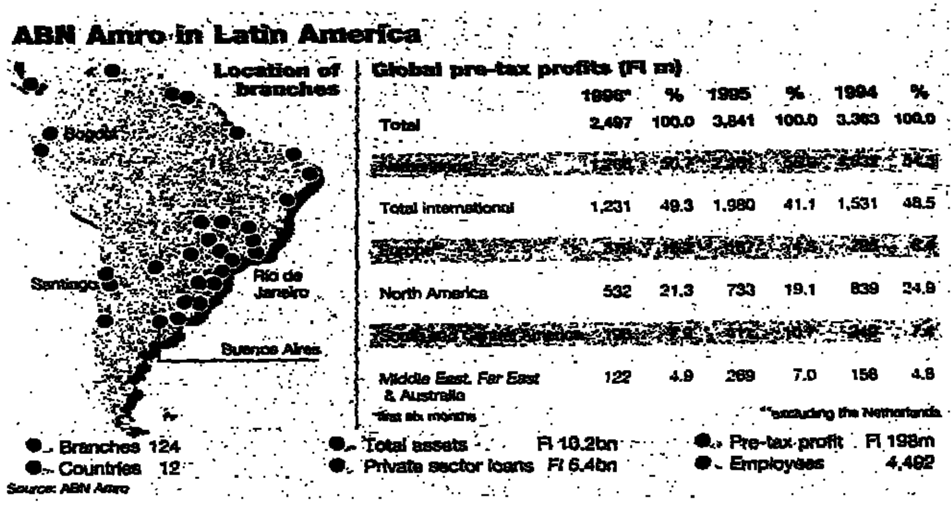
It was not clear yesterday whether the bid for Serj, which distributes electricity in Rio de Janeiro, meant Endesa was abandoning its investment plans in Chile.

The Spanish group spent $286.5m last year building up its generation and distribution assets in Argentina and Peru.

It has said that it wants to become the main foreign power group operating in Latin America.

Bank finds Latin America focus

ABN Amro expects the area to attract heavy investment from the US, writes Clare Gascoigne



A $60m investment may be small in global terms, but for ABN Amro, the Dutch bank, the announcement last week of the increase in resources for Chile signalled the bank's intentions in Latin America. "We are not pouring in enormous sums of money, but refocusing our operations," says Mr Michael Drabbe, chairman of the international division.

The bank operates in 12 Latin American countries and has Fl 10.2bn ($6.03bn) in assets in the region. Though Latin America remains a small part of the bank's total operations – it accounted for about 8 per cent of its Fl 2.5bn pre-tax profit in the first half of 1996 – ABN Amro is among the top 10 foreign banks in the region: it ranks fourth in terms of net assets among foreign banks in Brazil and seventh in Argentina.

Expansion plans include increasing the number of branches in Brazil from 50 to 62 by 2001, in Argentina from 17 to 40 in the next two years and in Chile from six to 12 by 1998. It plans a total of 250 branches by 2000 with a 15 per cent increase in staff numbers to about 5,000. It has applied for full banking licences in Colombia and plans to apply in Peru, giving it a presence in every country except Bolivia and central American countries.

The interest stems from a belief that Latin America – and particularly the southern "cone" – has gone a long way toward overcoming the instabilities and political problems of recent years. Inflation is below double figures in Argentina and Chile, and about 15 per cent in Brazil (compared with 1,007 per cent in 1994). Though the region is still trailing Asia in terms of growth rates (with GDP growth for 1995-2005 estimated at about 5 per cent compared with 8 per cent for Asia), it is expected to receive about $200bn foreign investment in the next five years.

"The lip service has ended and the US investor is going to put his money where his mouth is," says Mr Drabbe.

Forthcoming privatisations provide a growing opportunity for investment. With urgent need for capital investment, but with governments strapped for cash, and as yet undeveloped capital markets, it can only come from abroad. The accountancy group KPMG has identified $75bn worth of projects – ranging from roads to telecoms – in Brazil alone. The privatisation programme includes CVRD, the state oil company; federal and state electricity companies; and infrastructure such as ports.

ABN Amro has different strategies for different countries and is at pains to express its belief that the investor should not view Latin America as a homogenous whole. The regional management group for Latin America and the Caribbean only moved from Amsterdam to São Paolo in 1994, a move that created a stronger awareness of the differences among the different countries.

Brazil is the dominant participant so far, accounting for about 75 per cent of the bank's profits in Latin America. Given the strengths and competitive edge of the local retail banks, ABN Amro relies heavily on consumer and corporate banking; it manages $600m of assets and is the lead provider of card financing, where the issuing of a charge card provides a means of building a data base of clients for when credit cards become commonly used. The value of personal loans issued by ABN Amro has jumped from less than $5bn in 1993 to more than $15bn in the first half of 1996 – about 1 per cent of the total market, which ABN aims to increase to about 2 per cent by 2001.

In Argentina, by contrast, the emphasis is on personal banking, partly as a means of levelling the peaks and troughs of business and partly because the local banks do not provide the kind of service offered by the big names in Europe.

With only 27 per cent of Argentines having a bank account, there is plenty of room for growth and two years into a five-year plan ABN Amro Argentina has seen its current account balances double from $12m to $25m at September 1996. Savings accounts now stand at $66m compared with $32m in August 1994.

ABN Amro is proud of its history in South America, where it has been operating for 80 years, and makes much of the fact that it did not reduce its presence during recent financial crises, unlike some other foreign banks. The region is now proving a profitable operation.

William Resources sees strong output at Terra

By Kenneth Gooding, Mining Correspondent

William Resources, a Canadian company that had not mined one ounce of gold at the beginning of this year, is on track to produce 324,000 ounces in 1998, according to Mr George Faught, chief financial officer.

Once annual output reached a sustainable rate of 300,000 ounces, William would be considered a candidate for the Financial Times Gold Mines Index.

Mr Faught said yesterday that William expected to produce 290,000 ounces of gold next year at a cash operating cost of US$268 an ounce. The company expected to increase output to 524,000 ounces at a cash cost of $240 an ounce in 2000 and by then to have 10m ounces in reserves and resources. These objectives would be met while increasing shareholder value.

About half of William's output would come from Terra Mining, owner of Europe's biggest gold mine, the Bjorkdal in Sweden. William has made a US$109m agreed offer for Terra. Norsk Hydro, which floated Terra on the Swedish stock exchange in 1993 and still owns 42.3 per cent, accepts the offer.

Mr Faught was speaking to investors and analysts in London at a joint presentation by William and Terra.

William had expanded rapidly via acquisitions in Australia and Brazil but this phase was now over, said Mr Faught.

With Terra, William would have six producing mines and would for the foreseeable future concentrate on getting the best from these.

Before the Terra bid, William's most important purchase was the Jacobina gold mine in Bahia State, Brazil, acquired in August. Anglo American spent $125m on Jacobina.

In 1993, Anglo handed the mine over to its subsidiary, Minorco, which sold it to William for $16.4m and a 6 per cent net profits interest royalty.

Jacobina was a high-cost mine, producing about 50,000 ounces a year at a cash cost of $322 an ounce.

William expected to reduce these costs to $250 an ounce within two years and to lift annual output to 72,000 ounces by changing the mining methods and buying equipment.

Mr Faught said William was well qualified to take on difficult mines because it had a wide spread of technical expertise "in house" at its BLM Services mining consultancy subsidiary.

Advertising prepayments ahead 9.5% at Televisa

By Daniel Dombey in Mexico City

Grupo Televisa, Mexico's largest media group, yesterday reported greater than expected advertising deposits for the year ahead.

Prepayments for television advertising in 1997, made under a scheme known as the French Plan, were 5.69bn pesos ($720m), up 9.5 per cent in real terms from the amount raised last year.

This year the French Plan, which accounts for most of Televisa's sales of advertising time, was helped by the stirrings of recovery in Mexico's domestic economy.

The rise in deposits came despite a sustained attack from Televisión Azteca, the chief competitor to Televisa's television channels. By locking up much of the television advertising for the year ahead, Televisa reduces it rival's sales possibilities.

"Advertisers are more confident than before regarding the Mexican economy and Televisa's ability to help their sales," said Ms Marla Marron, an analyst at Salomon Brothers in New York.

However, analysts agreed that Televisión Azteca was still likely to increase its share of the total advertising market in 1997 to the detriment of Televisa. According to Deutsche Morgan Grenfell, the Mexican TV advertising market will rise 16 per cent next year.

Televisa also said yesterday it would use payments of liabilities by Univision, its US partner, plus $350m lent by the Morgan Guaranty Trust Company of New York, to refinance an expensive 3.4bn peso loan from Banco Nacional de México.

The Morgan Guaranty loan will be paid with the proceeds of the coming sale of part of Televisa's stake in the satellite operator PanAmSat to Hughes Electronics.

Deloitte revenues rise 9.5% to $6.5bn

By Jim Kelly, Accountancy Correspondent

Deloitte Touche Tohmatsu International, one of the Big Six global networks of accountancy firms, yesterday announced a 9.5 per cent increase in full-year revenues, to $6.5bn.

The results are broadly in line with the sector – KPMG recently announced an 8 per cent rise in worldwide revenues to $8.1bn.

Andersen Worldwide still leads the global league with a 16 per cent rise in 1996 to $9.4bn.

Deloitte & Touche in the UK and Channel Islands reported fees up 8.5 per cent to £400.8m ($668m). Mr Ed Kangas, world chairman, said the global firm's growth was attributed to its serving one in five of the world's multinational companies.

"We will continue to capitalise on our success by investing heavily in the four key emerging markets of central Europe and Russia, China and India," he said.

There was also significant growth within the new transatlantic firm of Deloitte & Touche Consulting Group – formed by the consulting arms of the UK and US firms. The group will eventually embrace other consulting practices, including mainland Europe.

In the UK, corporate finance and audit proved strong sectors for growth reflecting higher corporate sector activity.

"We have been very active in the buy-out market, advising on over 80 management buy-outs and buy-ins," said Mr John Roques, senior partner at Deloitte & Touche.

Chairman claims CalEnergy had indicated an offer of between 640p and 700p

Northern does not seek a referral

By Simon Holberton

Northern Electric, the English electricity company subject to a £766m ($1.26bn) hostile bid by CalEnergy, a US independent power producer, yesterday said the Monopolies and Mergers Commission had no role to play in the takeover.

In rejecting CalEnergy's 630p a share offer Mr David Morris, chairman, told shareholders that Northern was not seeking to "hide behind an MMC reference". Mr Morris said the bid should be decided on "value".

"Your board calls for a rapid end to this period of regulatory uncertainty," he said.

Northern's attitude to an MMC reference is in marked contrast to its response to a hostile bid from Trafalgar House in 1994. At that time Northern said an MMC reference was needed because Trafalgar's bid threatened customers' interests.

Department of trade and industry clearance usually comes before day 21 of a bid, which in Northern's case would be next Tuesday. In some electricity bids approval has taken longer. If approval does not come before day 39 the bid timetable would be halted until the regulatory position was clear.

Analysts said investors were concerned the bid could be referred but were by no means convinced it would be. Northern's share price, which has languished below the offer price, would rise if clearance were given, they said.

In his letter to shareholders Mr Morris renewed his attack on CalEnergy's offer claiming that 630p was "below even the lowest price put to us by the bidder" in discussions which preceded the bid two weeks ago. Northern claims that during these talks CalEnergy indicated a price range of between 640p and 700p.

CalEnergy said that claim "beggars belief". In its reply the company said that at no time did it suggest "an intent to value Northern at around 700p a share". It said Northern's defence document offered no prospect of providing more value to shareholders than the 630p it was offering.

It also emerged yesterday that CalEnergy had given undertakings to Offer, the electricity regulator, that Northern would retain its investment grade debt rating. CalEnergy's own junk bond credit rating has prompted questions about its fitness to own a rec.

Northern reminded shareholders that they would receive a special dividend of 56.5p next February.

High margin products lift McLeod Russel

By Jane Martinson

Tony Andrews

Some like it clean: James Leek (left) with Ian Hazlehurst, chief executive, at Madame Tussauds in London where the company provides air filters

Demand for high-performance filters helped McLeod Russel, the air filtration and surface coatings group, lift annual pre-tax profits 12 per cent to £9.64m ($15.9m).

Mr James Leek, chairman, said that the greatest growth had come from higher margins "clean-air" products used in the pharmaceuticals and electronics industries.

Mr Leek has restructured the business in the past two years and moved out of contracting and property.

Sales fell to £111.8m (£118.1m) in the year to September 30 chiefly because of last year's disposal of the high-turnover contracting businesses.

Operating profits rose 15 per cent to £10.6m (£9.14m). The group bought two filtration companies for £7m in July. These contributed profits of £395,000 and sales of £3.06m in less than three months.

The group aims to make further in-fill air filtration acquisitions, particularly in the US. Mr Leek says that up to £15m was available for purchases.

At the year-end, gearing stood at 38 per cent with net debt of £14.3m.

McLeod's surface coatings division has suffered flat sales and profits for the past two years, partly reflecting difficult markets.

McLeod's tax rate rose from 21.4 per cent to 25 per cent as various benefits came to an end. This is expected to rise over the next two years.

Earnings per share rose 5.5 per cent to 12.27p, against 11.63p last time which benefited from a profit on a disposal. A final dividend of 3.85p makes a total of 6.7p, up almost 5 per cent. Shares were unchanged at 175½p.

British Gas rises on Shell bid talk

By Jane Martinson

Bid speculation pushed British Gas shares 9 per cent higher yesterday, making it the FTSE 100's best performing stock.

Both British Gas and Royal Dutch Shell, the international oil group, refused to comment on weekend press reports that they had discussed merger plans.

British Gas shares rose 19¼p to 228¼p, their highest level since May, when Ofgas, the regulator, published price controls on TransCo, its pipeline arm. Turnover was heavy at 34m.

Some analysts suggested reasons other than bid speculation for the excitement. "Everybody could be barking up the wrong tree," said one. "These discussions are just as likely to be over take-or-pay."

Shell is one of the producers involved in protracted negotiations with British Gas over the terms of its "take-or-pay" contracts in the North Sea, which have committed it to paying much more than the current market price for supplies.

Another possibility is that an asset swap is being discussed. Some analysts said the oil group was keen to buy British Gas's Morecambe Bay gas field.

One observer said an all-out takeover would involve too many problems. The closeness of the general election would add to political sensitivities of any merger – the government holds a golden share in British Gas, which it could use to restrict takeovers.

Shell is also understood to be extremely unwilling to launch a hostile bid.

One British Gas adviser suggested the group was too busy preparing for the demerger and negotiating the take-or-pay contracts for any serious takeover talks to have taken place.

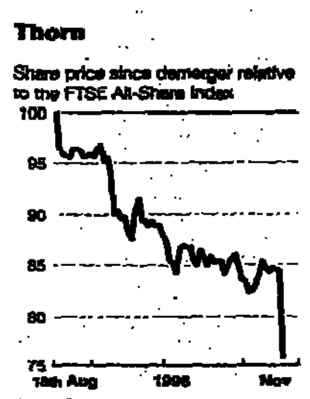
The London Stock Exchange said last night it would only force an announcement in the event of "unusual" share price movements.

LEX COMMENT

Thorn

No-one could suggest that Thorn's three months of independence have been dull. Within weeks of the rental company being shed from Thorn EMI's more glamorous music business, Thorn lost its appeal against a US state judgment that its rental agreements were usurious credit sales. Its French store has since been closed amid accusations that it was preying on the poor. And the shares' downward momentum was further encouraged by a maiden results statement which contained a profits warning. The main disappointment was the prediction of a like-for-like sales decline in the US this year. However, its new UK customer service centre is also behind schedule and there is still no evidence that heavy investment in the new Crazy George store concept will deliver decent returns. But the drop in its shares leaves them a prospective p/e ratio over 20 per cent below the market average. Given strong cashflow and a cost-cutting programme, which should enable profits to grow at close to the market average, this smacks of over-reaction.

Of course, there is still the thorny issue of US litigation. But in the three biggest cases – in Minnesota, Wisconsin and Pennsylvania – plaintiffs' claims run to only $50m and are finite. If the recent Minnesota judgment stands, other states could join the fray, so until the US news flow takes a turn for the better, Thorn's shares will struggle to claw back recent losses. Nonetheless, they look fundamentally cheap.



Forward Group issues warning

By Christopher Price

Forward Group's market value halved yesterday after the supplier of printed circuit boards warned that sharply deteriorating trading conditions would result in annual results "substantially below market expectations".

Mr Ray Chamberlain, executive chairman, blamed the rescheduling of orders by some of its main customers.

Analysts cut profit forecasts for the full year, reducing expectations from £13m ($21.5m) £to £8.2m (£7.2m).

The shares fell 149½p to 281½p.

Mr Chamberlain said the difficulties had arisen over the past three weeks, and were in sharp contrast to first half trading. These results, announced yesterday, showed that pre-tax profits had trebled to £6.21m (£2.01m) on turnover of £53.4m (£20.52m).

The postponement of orders had come from several customers, operating mainly in the telecoms industry, and including Nokia, Motorola and Ericsson.

"No orders have been cancelled and no customers have been lost," he said. However, November and December sales expectations would be badly hit, with January – the last month of the group's financial year – also vulnerable. He remained optimistic about prospects for next year.

Lonrho wins sale approval

By Tim Burt

Lonrho yesterday secured shareholder approval for the sale of its Metropole Hotels subsidiary despite a warning from Mr Tiny Rowland, the conglomerate's former chief executive, that the disposal strategy would fail to clear the company's debts.

Although Mr Rowland said that the £327m ($540m) Metropole sale to Stakis would "destroy shareholder value", investors owning more than 54 per cent of Lonrho voted in favour of the deal at an extraordinary meeting.

Mr Rowland, who was ousted in spring 1995, also questioned Lonrho's decision to demerge its trading and other operations, while allowing Anglo American, South Africa's biggest company, to take a 26 per cent stake in its remaining mining interests.

Mr Rowland voiced his concerns in a memorandum to shareholders, but did not attend the meeting. Lonrho dismissed his criticism, and denied that the Metropole sale and prospective disposal of its Princess Hotels subsidiary would still leave the group debt-burdened.

According to a Lonrho representative, analysts expected the sale of both chains to raise about £600m – thereby clearing current balance sheet debts of £540m. Mr Rowland, however, suggested that Lonrho was faced with borrowings of £830m, a figure rejected by the company.

It also rejected allegations by Mr Rowland that Mr Dieter Bock, formerly Lonrho chief executive and now non-executive deputy chairman, had compromised shareholder interests by selling his 18.3 per cent stake to Anglo American.

Lonrho declined to comment on reports that the European Commission was considering a wide-ranging investigation into the possible effect on the platinum market of its link up with Anglo American.

Geest makes Belgian buy

Geest, the food group, has agreed with Albert Heijn, a subsidiary of Ahold, the Dutch supermarket group, to manufacture a chilled food range for Heijn in the UK and Belgium.

Geest will purchase Vaco, a Belgian manufacturing company, from Ahold for BFr252.5m ($8m) cash.

Geest said this would be its first prepared foods facility outside the UK and its first substantial partnership with a European retailer. The shares rose 7½p to 255p.

Hepworth in east European moves

By Andrew Taylor, Construction Correspondent

Hepworth, the building materials group, yesterday announced the latest expansion of its European central heating boiler business.

The group initially is buying a 34 per cent stake in Protherm, which sells gas boilers in the Czech Republic and Slovakia under the Protherm and Transkom brand names. It has the right to increase its holding to 90 per cent over five years, paying up to £26.5m.

The price was calculated according to multiples of Protherm's annual profits after tax. The cost of the initial 34 per cent stake will be eight times 1996 profits.

Hepworth said it had made an advance payment of £3.1m, "equivalent to 90 per cent of the estimated initial consideration".

Protherm's after-tax profits in 1996 are expected to be £1.1m. It has net assets of £2m. Protherm is the leading supplier of wall-hung gas boilers in the Czech Republic. Earlier this year it won an order to supply an army officers' housing complex in Ukraine. The boilers were chosen because of their ability to operate in severe cold.

Hepworth is the second largest central heating boiler supplier in the UK, behind Blue Circle, and is market leader in France, Belgium and Spain.

The group, which reported a 5.3 per cent fall in pre-tax profits to £35.5m in the first half, announced plans last month to sell its refractories division. The division, thought to be worth £50m-£55m, has attracted interest from Radex-Heraklith of Austria, Global Industrial Technology of the US, Lafarge of France and Morgan Crucible of the UK.

Diploma hit by competition

By Michael Lindemann

Diploma, which distributes electronics and building components, saw 1996 pre-tax profits fall 14 per cent to £23.5m ($38.8m) because of growing competition and a bad market for new housing starts.

Mr Christopher Thomas, executive chairman, said the market for electronics and new housing starts was picking up and would feed through into the 1997 results.

He warned, however, that the prospects for special steels, the third and smallest of Diploma's businesses, were less encouraging as the sector was nearing the top of its cycle.

Sales rose 9 per cent to £235m (£216m), with the strongest growth coming from the special steels division where turnover was up 34 per cent.

The shares, of ½p at 382p, reflected the fact that analysts were told of the profits slowdown in September.

Mr Thomas said the electronics business continued to offer good long-term growth prospects because of the strong demand for semi-conductors. However, increased competition had eroded margins, he said.

Diploma expanded its special steels business this year through an acquisition, designed to improve its ability to supply the oil industry, and was now looking for another business to give the group a bigger international reach.

Two recent purchases in the US suggested that there might be more to come there, but Mr Thomas declined to rule out any ventures in Europe.

"We particularly like the US, despite the downward trend of the dollar," he said.

Setback at Jarvis Porter

By Michael Lindemann

Interim pre-tax profits at Jarvis Porter, the label maker, fell 16 per cent to £5.1m after setbacks in several important markets.

A factory closure by 3M, the adhesive labels manufacturer, and problems with a large European contract hit profits in the six months to August 31.

The figure was further depressed by a £1m charge for a restructuring programme, which could cost up to £1m more. The company hopes to save £1m annually following the changes.

Mr Richard Brewster, chief executive, said the company was hoping to renegotiate the European contract for toiletry labels, helping it to recover some lost ground next year.

After the slow start, the first half performance had improved. Sales of labels to the drinks industry had picked up after a period of destocking and sales to the electronics industry had risen 9 per cent.

Overall group sales rose 7.4 per cent to £48.3m (£45m), including a first-time contribution from Svanskog.

Brokers revised their full-year forecasts downwards slightly because of the impact of restructuring.

600 Group shares dip despite rise

By Peter Marsh

The 600 Group, the machine tool producer, yesterday announced plans to accelerate its product development programme, alongside a 66 per cent rise in underlying interim pre-tax profits.

Stripping out the £25.3m of pension credits, pre-tax profits rose from £3m to £5.1m ($8.41m) in the six months to September 30. Sales from continuing operations rose 5 per cent to £67.2m.

Mr Colin Gaskell, 600 Group's managing director, said there was "no sign" of long-term weakening in its main markets in the UK, continental Europe and the US and that the company had "plenty of ideas" for new products.

However the company's shares fell 17p to 249½p, on worries that growth could be slowing.

The machine tools division showed a small increase in operating profits to £5.69m ($5.59m) on sales up nearly £10m to £68.4m including intersegment sales.

Mr Gaskell said new products continued to represent more than 50 per cent of turnover. The company would be stepping up its development of low-cost, electronically controlled lathes, and also entering into some "slightly riskier" areas of development with high growth potential.

He also announced that he would retire from his post next August. He will be succeeded by Mr Tony Sweeten, managing director of the machine tool division.

Brendan Corr

Colin Gaskell: intends to step down next August

Earnings per share, excluding the pension credits, came to 7.4p, up from 3.7p.

The interim dividend was doubled to 1.5p. Gearing at the end of the half year was 11 per cent, compared with 20 per cent a year earlier.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Barlo ♣	6 mths to Sep 30	56.1	(56.7)	2.16	(1.1)	1.22	(0.6)	0.4	Jan 17	0.4	-	1
Capitol	6 mths to Sept 30	11.2	(4.6)	0.77	(0.64)	6.74	(4.51)	1.5	Dec 13	1.33	-	4
Celsis Intl	6 mths to Sept 30	4.14	(1.72)	2.7L	(2.89L)	3.41L	(4.11L)	-	-	-	-	-
Cropper (James)	6 mths to Sept 28	29.4	(27.77)	2.65	(0.603♠)	19.2	(4.6)	1.3	Jan 10	1.1	-	3.9
Diploma	Yr to Sept 30	234.8	(216.1)	23.5	(27.4)	27	(31.7)	10	Jan 10	10	14.5	14.5
Emerald Energy	9 mths to June 30	0.395	(-)	0.263♥	(-)	-	(-)	-	-	-	-	-
European Telecom	6 mths to Sept 30	53	(31.6)	1.53♠	(0.764)	3.28	(2.05)	0.75	Jan 2	-	-	-
Fibernet Φ	Yr to Aug 31	5.89	(5.81)	0.328	(0.536)	-	(-)	-	-	-	-	-
Forward Group	6 mths to July 31	53.5	(20.5)	6.21	(2.01)	7.5†	(3.6*)	1	Jan 10	0.8*	-	2*
Jarvis Porter	6 mths to Aug 31	48.3	(45)	5.09♠	(7.27)	7.1	(10.2)	2.35	Jan 10	2.15	-	6.75
London Industrial	6 mths to Sept 30	8	(6.4)	2.26	(1.79)	11.4	(9.2)	4.5	Jan 3	4	-	13
McLeod Russel	Yr to Sept 30	111.8	(118.1)	9.64	(8.61♥)	12.27	(11.63)	3.85	Jan 27	3.65	6.7	6.4
600	6 mths to Sept 30	67.2	(67.5)	30.4♥	(4.83)	35	(7.1)	1.5	-	0.75	-	4
Thorn	6 mths to Sept 30⁑	785.1	(733.9)	37.8♠	(71.5)	3	(10.9)	3.7	Feb 28	3.4	-	13
Versailles Φ	6 mths to Aug 31	48.9	(31.3)	2.08	(1.3♠)	0.567†	(0.357)	0.195	Dec 20	-	-	0.195

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Eurotrust	Yr to Sept 30	307.3	(258.4)	1.47	(0.919)	2.36	(1.49)	1.6大	Dec 20	1.25	1.6大	1.25
F&C German	6 mths to Sept 30★	175	(158.4)	0.4	(0.522)	1.02	(1.33)	-	-	-	-	0.75
Framlington Income	6 mths to Sept 30	170.2	(152.3)	1.12	(1.02)	2.88	(2.8)	1◆	Mar 8	1	-	4.9
Invesco Eng & Intl	6 mths to Oct 5★	180.5	(162.1#)	0.697	(0.333)	1.23†	(0.68)	0.5	Jan 10	0.4	-	1
JF Utilities		-	(-)	-	(-)	-	(-)	1.85§§	Jan 15	1.78	-	7.94
Jupiter Extra Inc	Yr to Sept 30	118.15	(106.79)	3.78	(3.41)	10.15	(9.13)	1.96875	Dec 6	1.96875	7.875	7.875
Pilot	6 mths to Sept 30	142.58	(126.16)	0.569	(0.54)	1.53	(1.46)	0.75	Dec 16	0.65	-	2
Secs Tst Scotland	6 mths to Sept 30★	105.89	(98.71)	6.66	(6.82)	2.08	(2.13)	1.13	Dec 16	1.08	-	3.61

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. *Equivalent after allowing for scrip issue. ⁑Comparatives pro forma. 大Foreign income dividend. ★Comparatives restated. ◆Second interim: makes 2p to date. #At April 5. §§First interim.

INTERNATIONAL CAPITAL MARKETS

Gilts jump on strong October PSBR figure

GOVERNMENT BONDS

By Richard Adams and Samer Iskandar in London and Lisa Bransten in New York

UK gilt prices rose strongly yesterday, following positive economic news and proposals to ease tax charges on coupon payments to overseas investors.

Liffe's December long gilt future surged from a low of 109⅝, to settle at 110¼, up ⅜ from Friday.

The rise followed news that UK government receipts had outstripped expenditure by £4.4bn in October, one of the highest monthly surpluses recorded by the current government.

Mr Simon Briscoe, chief UK economist at Nikko in London, said the rise continued gilts' recent trend, and was helped by the "encouraging background music" of the public sector borrowing requirement figures.

Mr Briscoe also described the PSBR as "extraordinarily good". He said: "It is the first time for over a year that it is right not to have worries about the PSBR."

In the last 12 months, gilts have been unsettled by a number of "scare stories" raising worries about the government deficit – including concern over the cost of the BSE crisis and a ruling by the European Court of Justice allowing large-scale reclamation of VAT.

The good news on government revenues leaves room for the UK government to fulfil expectations of tax cuts in its budget next week, without sending alarms through the bond markets, Mr Briscoe said.

Italian bonds soared to new highs, before retreating in the afternoon on profit-taking. Liffe's December BTP future set a new record of 128.38, then closed at 127.89, up 0.29.

In the cash market, the 10-year benchmark BTP gained 0.21 to 112.66, its yield spread over bunds narrowing by 2 basis points to 175 points. Traders remain bullish, and few expect a correction in the near term, even after six consecutive positive sessions.

The approval last weekend of the 1997 budget by the Chamber of Deputies – Italy's lower house of parliament – was partly responsible for the rise. But market participants are expecting further good news later in the week, when preliminary data on consumer price inflation are released.

Analysts are predicting a slowdown in the rate of growth of retail prices to around 2.5-2.7 per cent this month, from 3 per cent in October. Mr David Brown, chief European economist at Bear Stearns, expects the 10-year yield spread over bunds to narrow to 150 basis points.

Spanish bonds also finished higher. The December future on 10-year bonos recorded a new high of 111.14, then settled at 110.56, up 0.18.

Although the market's advance was stemmed by profit-taking, analysts remain optimistic. Mr Brown said the fact that "the 1997 budget is progressing through Congress...bodes well for the bono market".

US Treasury prices slipped early yesterday as traders prepared for new supply due this week.

Near midday, the benchmark 30-year Treasury was down 1/32 at 100 3/32 to yield 6.462 per cent.

At the short end of the maturity spectrum, the two-year note was 1/32 weaker at 100¼, yielding 5.667 per cent.

The December 30-year bond future lost 1/32 to 114 3/32.

The yield curve that traces the spread between two-year notes and the long bond held steady at 80 basis points.

Today, the Treasury Department is to auction $18.25bn in two-year notes and tomorrow it will sell $12.5bn in five-year notes. Bonds often fall in advance of an auction as traders try to lift bond yields to attract retail buying.

Little in the way of economic news was released yesterday, and the dollar was mixed against the D-Mark and the yen.

In early trading, the dollar slipped to DM1.5002 from DM1.5101 late on Friday but edged up to Y111.26 from Y111.14.

Japanese government bonds rose sharply. The December JGB future closed up in Tokyo, at 125.32, but drifted lower in later trading in London, where it corrected downwards to around 125.26 at the end of the session.

Dealers in both cities said trading took place in moderate volumes, with the market holding its breath until next week's publication of the Bank of Japan's quarterly *tankan*, a survey of business confidence.

In the Tokyo cash market, the yield on the benchmark No 182 JGB fell to 2.56 per cent from 2.62 per cent on Friday, as the price rose by 0.42 to 103.20.

Greece to launch fixed-rate bond

By Kerin Hope in Athens

Greece is to launch its first fixed-rate bond issue on Friday under a plan to boost the secondary market and reduce the cost of financing its large public debt. The finance ministry said it would auction Dr100bn of three-year bonds with a coupon set at 11 per cent.

Analysts said the price would be close to par, given the limited size of the issue and the keen appetite of Greece's large state-owned banks for new instruments. The coupon is 100 basis points lower than the rate on 12-month treasury bills.

"This issue provides a benchmark for developing a yield curve, which would help Greece's secondary market take off," said Ms Marina Efraimoglou of Telesis Securities.

Greece had been reluctant to introduce fixed-coupon bonds because of uncertainty about inflation, which jumped earlier this year from 8.1 per cent to 9.2 per cent. However, the inflation rate slowed to 8.3 per cent in October and is projected to move steadily downward.

The finance ministry holds monthly auctions of floating-rate notes linked to interest rates on 12-month T-bills. Rates for this month's tap of seven-year FRNs were cut by 10 basis points to give a 140 point spread over T-bills.

Greece raises Dr300bn to Dr800bn a month to finance public debt equivalent to 110 per cent of gross domestic product. With debt financing accounting for more than 30 per cent of spending, it wants to reduce costs by developing the bond market.

The finance ministry plans to introduce five-year fixed coupon bonds early next year, followed by zero-coupon and index-linked bonds.

Austrian bank steals show with $500m issue

INTERNATIONAL BONDS

By Samer Iskandar

Two Japanese borrowers, Nippon Telegraph & Telephone and Chugoku Electric Power, competed for investors attention yesterday, among a flurry of medium-sized deals in a wide array of currencies.

But ultimately Oesterreichische Kontrollbank stole the show with its $500m issue of 10-year bonds.

The launch was "spectacular", with bonds being "broadly distributed among high quality investors", according to Goldman Sachs, the lead manager, which also said the choice of a 10-year maturity allowed the borrower to offer more generous terms to investors.

"Spreads in the five-year area are very tight", a Goldman official said. "Had OKB chosen a five-year maturity, they would certainly have offered a single-digit spread."

Chugoku Electric, one of Japan's largest utilities, was also active, tapping two markets on the same day.

Its widely-expected maiden issue in D-Marks was moderately successful. Commerzbank, joint lead manager with Japan's Long-Term Credit Bank, said it had seen some flow-back of bonds, but remained confident the placement process would soon be completed.

ABN Amro and J. P. Morgan ensured the success of NTT's deal by testing the waters overnight in Asia, before the launch yesterday morning. The US bank said the whole "amount was sold by the time the bonds were priced".

It pointed out the strong demand from Asian investors, who took up about a quarter of the issue, with Japanese buyers taking about 10 per cent.

"The pricing was competitive," J. P. Morgan conceded. "But they [NTT] did not push it too far."

The sterling sector was also active. Commerzbank launched its first self-led deal – £100m of retail-targeted four-year notes – with HSBC acting as joint book-runner.

The issue was motivated by strong retail demand, as shown by the recent success of sterling-denominated deals.

Whitbread, currently involved in an extensive expenditure programme, made its return to the domestic sterling market after a three-year absence.

UBS, the lead manager, described the deal as "a rare transaction from a rare borrower".

It also said the £100m of 25-year bonds were oversubscribed, mainly by institutional investors such as UK-based life insurance companies and pension funds, which are familiar with the borrower.

Favourable market conditions allowed Whitbread to swap the funds into a floating-rate liability, at "an attractive Libor-related cost", according to UBS.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Oest Kontrollbank(l)	500	6.50	99.96R	Dec 2006	0.325R	+23(6½%Oct06)	Goldman Sachs Intl
NTT	300	6.125	99.909R	Dec 2001	0.25R	+11(WI 5yr)	ABN Amro/JP Morgan
Chugoku Electric Power Co(l)	250	6.25	99.786R	Dec 2001	0.275R	+28(WI 5yr)	IBJ International
Petrobras Distribuidora(l)	150	7.50	99.625R	Nov 1997	0.30R	+200(Libor)	Barclays de Zoete Wedd
D-MARKS							
Chugoku Electric Power Co	300	5.625	99.57R	Dec 2003	0.30R	+30(6%Sep03)	Commerzbank
SWISS FRANCS							
Ford Credit Europe	150	3.50	102.25	Jan 2001	1.75	-	Credit Suisse
Sony Capital Corp	150	3.125	101.75	Dec 2000	1.75	-	Merrill Lynch Cap Mkts
STERLING							
Commerzbank O'seas Fin(l)	100	7.25	99.476R	Dec 2000	0.225R	+15(8%-00)	Commerzbank/HSBC
FRENCH FRANCS							
Crédit Local de France(a)	1bn	5.375	101.858R	Oct 2001	0.25R	+17(5½Oct01)	Banque Nationale de Paris
ITALIAN LIRE							
Rabobank Nederland	300bn	7.375	101.58	Dec 2008	2.00	-	Credito Italiano
L-Bank	200bn	7.30	101.37	Dec 2006	2.00	-	JP Morgan Securities
Abbey Natl Trsy Services(b)	200bn	7.00	101.525	Dec 2001	1.875	-	Cariplo/IMI Luxembourg
NEW ZEALAND DOLLARS							
World Bank★	100	6.65#	100.00	Jun 1998	0.50	-	Tokyo Securities Co

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with FFr2.5bn. Plus 65 days accrued. b) Callable on 17/12/98 at par. l) Long 1st coupon.

HSBC Investment to open office in Cairo

By Sean Evers in Cairo

HSBC Investment Banking has announced that, subject to local approvals, it will shortly open an office in Cairo, its first in the Middle East. It will form two new companies, HSBC Investment Company (Egypt) and HSBC James Capel Egypt, to provide a full range of investment banking and stockbroking services, respectively.

The two companies will be 60 per cent owned by HSBC Investment Bank BV and 40 per cent by Egyptian British Bank (EBB). EBB is HSBC's 40 per cent owned Egyptian affiliate and one of the country's expanding banks.

HSBC James Capel was the first big international stockbroker to write investment research on the Egyptian market and to offer its institutional clients dealing facilities on the Cairo stock exchange. It was also the first bank to initiate an off-shore Egypt country fund, which came on to the market in June this year, and will now be the first foreign investment bank to set up an operation in Egypt.

With more than 3,400 offices in 76 countries, HSBC Investment Banking is responsible for the merchant banking, equity securities, asset management and private banking activities of the HSBC Group.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.0070	-0.630	7.17	7.22	7.63
Austria		5.875	07/06	99.6000	+0.040	5.93	5.97	5.93
Belgium		7.000	05/06	107.1700	+0.020	5.99	6.08	6.10
Canada *		7.000	12/06	106.3500	-0.180	6.15	6.19	6.80
Denmark		8.000	03/06	108.3000	+0.120	6.77	6.85	6.79
France	BTAN	5.500	10/01	103.0565	+0.130	4.81	4.90	4.94
	OAT	6.500	10/06	105.0400	+0.140	5.82	5.91	5.96
Germany Bund		6.250	04/06	103.0300	+0.040	5.82	5.92	5.99
Ireland		8.000	08/06	108.6800	+0.060	6.76	6.92	6.88
Italy		9.500	02/06	112.6600	+0.210	7.58†	7.80	8.20
Japan	No 140	6.600	06/01	122.4391	+0.210	1.49	1.67	1.84
	No 182	3.000	09/05	103.2041	+0.490	2.56	2.71	2.75
Netherlands		8.500	06/06	119.6000	+0.100	5.78	5.87	5.92
Portugal		9.500	02/06	115.8900	+0.420	7.11	7.37	7.57
Spain		8.800	04/06	110.0900	+0.230	7.26	7.55	7.69
Sweden		6.000	02/05	93.5010	+0.290	7.05	7.31	7.23
UK Gilts		8.000	12/00	103-00	+5/32	7.13	7.23	6.71
		7.500	12/06	99-30	+10/32	7.51	7.67	7.40
		9.000	10/08	110-27	-1/32	7.60	7.78	7.54
US Treasury *		6.500	10/06	102-07	-11/32	6.20	6.27	6.49
		6.500	11/25	100-12	-18/32	6.47	6.58	6.79
ECU (French Govt)		7.000	04/06	105.5800	+0.270	6.19	6.31	6.30

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
		One month	-	Two year	5.67
Prime rate	8¼	Two month	-	Three year	5.78
Broker loan rate	7	Three month	5.15	Five year	5.95
Fed.funds	5¼	Six month	5.26	10-year	6.17
Fed.funds at intervention	-	One year	5.39	30-year	6.45

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	127.56	127.86	+0.24	127.96	127.52	76,523	172,507
Mar	127.50	127.76	+0.22	127.86	127.44	6,348	47,672
Jun	126.28	126.54	+0.22	126.32	126.28	2	7,077

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Mar
124	-	-	-	-	0.03	0.21
125	-	-	-	0.01	0.08	0.36
126	1.88	-	-	0.03	0.17	0.58
127	0.93	1.14	-	0.08	0.36	0.88
128	0.25	0.57	1.08	0.38	0.80	1.33

Est. vol. total, Calls 18,401 Puts 8,393. Previous day's open int., Calls 161,187 Puts 174,356.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.97	101.08	+0.06	101.23	100.87	102214	254023
Mar	99.94	100.09	+0.04	100.23	99.93	5044	27126

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
10100	0.23	0.22	0.48	0.60	0.15	1.13	1.37	1.51
10150	0.05	0.12	0.31	0.45	0.47	1.53	1.72	1.86
10200	0.01	0.06	0.21	0.33	0.93	1.97	2.12	2.24

Est. vol. total, Calls 15977 Puts 8876. Previous day's open int., Calls 225808 Puts 228803

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	127.27	127.89	+0.29	128.38	127.25	56186	100760
Mar	126.97	126.84	+0.31	127.40	126.90	1068	6582

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
12750	0.58	1.78	0.39	2.44
12800	0.34	1.56	0.65	2.72
12850	0.17	1.37	0.98	3.03

Est. vol. total, Calls 20024 Puts 5469. Previous day's open int., Calls 211550 Puts 197896

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.17	110.38	+0.17	111.14	110.17	103,136	64,163
Mar	109.96	109.85	+0.29	110.50	109.95	1,307	1,844

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	109-29	110-14	+0-12	110-23	109-27	61269	142942
Mar	109-18	109-24	+0-12	109-31	109-16	2483	5820

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
110	0-42	0-56	1-16	1-35	0-14	1-08	1-34	1-51
111	0-12	0-31	0-56	1-07	0-48	1-47	2-08	2-23
112	0-02	0-16	0-36	0-48	1-38	2-32	2-52	3-01

Est. vol. total, Calls 10713 Puts 7911. Previous day's open int., Calls 63208 Puts 36714

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	94.96	95.24	+0.28	95.32	94.92	970	7,709
Mar	94.80	94.80	+0.28	94.80	94.80	26	26

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	114-28	115-07	+0-09	115-07	114-27	385,486	410,442
Mar	114-18	114-25	+0-07	114-25	114-15	6,610	58,991
Jun	114-09	114-05	+0-03	114-09	114-09	141	10,195

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	125.32	-	-	125.52	125.26	3587	n/a
Mar	124.42	-	-	124.60	124.42	1263	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Nov 18	Day's change %	Fri Nov 15	Accrued interest	xd adj. ytd		Low coupon yield Nov 18	Nov 15	Yr. ago	Medium coupon yield Nov 18	Nov 15	Yr. ago	High coupon yield Nov 18	Nov 15	Yr. ago
1 Up to 5 years (21)	120.74	0.15	120.55	2.09	8.90	5 yrs	7.19	7.24	7.24	7.25	7.32	7.25	7.29	7.33	7.32
2 5-15 years (18)	150.05	0.26	149.66	3.04	9.84	15 yrs	7.70	7.73	7.89	7.68	7.72	7.84	7.71	7.75	8.00
3 Over 15 years (8)	169.68	0.47	168.88	4.43	9.83	20 yrs	7.79	7.82	7.95	7.74	7.78	7.98	7.78	7.82	8.04
4 Irredeemables (6)	191.02	0.56	194.58	0.74	13.47	Irred.†	7.86	7.90	8.03						
5 All stocks (53)	144.38	0.27	144.01	2.92	9.64										

Index-linked	Mon Nov 18	Day's change %	Fri Nov 15	Accrued interest	xd adj. ytd		Inflation 5% Nov 18	Nov 15	Yr. ago	Inflation 10% Nov 18	Nov 15	Yr. ago
6 Up to 5 years (2)	202.80	0.08	202.65	0.77	5.28	Up to 5 yrs	3.13	3.14	2.75	2.42	2.44	1.54
7 Over 5 years (10)	195.25	0.21	194.83	1.16	4.71	Over 5 yrs	3.51	3.53	3.56	3.30	3.32	3.35
8 All stocks (12)	194.99	0.20	194.60	1.11	4.68							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date

FT Fixed Interest Indices

	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12	Yr ago	High*	Low*
Govt. Secs. (UK)	94.49	94.10	93.81	93.36	93.84	94.59	96.34	91.58
Fixed interest	115.85	115.72	115.37	115.35	115.42	113.36	116.45	110.74

Gilt Edged Activity Indices

	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11
Gilt Edged bargains	129.8	109.1	95.1	111.7	92.5
5-day average	107.6	102.5	104.9	112.5	116.8

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 18

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100¾	101	-⅛	6.35
ABN Amro Bank 7¼ 05	1000	103½	103⅝		6.82
African Dev Bk 7¾ 23	500	102½	103	-¼	7.16
Alberta Province 7⅜ 98	1000	103⅛	103⅜	-⅛	5.89
Asian Dev Bank 6¼ 05	750	99⅛	99¼	-⅛	6.48
Spain 7¼ 03	4000	109⅛	109⅜	+⅛	5.49
Volkswagen Intl Fin 7 03	1000	106⅜	106⅝	-¼	5.79
World Bank 5⅞ 03	3000	102⅝	102¾		5.41
World Bank 6⅛ 02	3000	104⅞	104⅞	+⅛	5.14
World Bank 7⅛ 05	3000	108¼	108¼	+⅛	5.86
Abbey Natl Treasury 8 03 £	1000	101¼	101⅜	+⅛	7.73
British Land 8⅞ 23 £	150	96	96¼	+¼	9.49
Denmark 6¾ 98 £	800	99⅜	99½		7.11
Depfa Finance 7⅞ 03 £	500	96¾	97	+⅛	7.74
EIB 8 03 £	1000	102⅜	102⅝	+⅛	7.51
Glaxo Wellcome 8¾ 05 £	500	104½	104¾	+⅛	8.03
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
Treas 13¼pc 1997‡‡	13.09	6.01	101⅛	—	107⅞	100½
Exch 10½pc 1997	10.40	6.23	101	-⅛	107⅛	100⅞
Treas Cnv 7pc 1997‡‡	6.98	6.48	100⅜	—	101⅝	100⅜
Treas 8¾pc 1997‡‡	8.61	6.52	101⅝	-⅛	107⅞	101⅝
Exch 15pc 1997	13.95	6.60	107⅜	-⅛	115⅜	102⅞
Exch 9¾pc 1998	9.44	6.67	103⅛	-⅛	106⅞	100⅛
Treas 7¼pc 1998‡‡	7.21	6.75	100⅝	+⅛	109⅝	100⅞
Treas 7¾pc 2006‡‡	7.64	7.53	101⅜	+⅛	103¾	98⅞
Treas 8pc 2002-6‡‡	7.82	7.47	102⅛	+⅛	104⅛	97⅞
Treas 11¾pc 2003-7	9.69	7.40	121¼	+¼	125⅛	118⅜
Treas 8½pc 2007 ‡‡	7.96	7.55	106⅜	+⅛	108⅞	101⅛
Treas 9pc 2008 ‡‡	8.12	7.59	110⅞	+⅛	112⅞	103⅜
Treas 8pc 2009	7.77	7.65	103	+⅛	104½	98⅜
[illegible]						

Notes	(1)	(2)	Price £	+ or -	52 week High	52 week Low
Index-Linked (6)						
4⅝pc '98‡‡ (135.6)	0.24	2.24	113⅜	—	114⅛	111⅞
2½pc '01 (78.3)	2.58	3.19	184⅜	+⅛	185⅜	176⅛
2½pc '03 (78.8)	2.84	3.29	181⅛xd	+⅛	181⅞	171⅜
4⅝pc '04‡‡ (135.6)	2.90	3.31	118⅛	+⅛	118⅜	112⅜
2pc '06 (69.5)	3.06	3.37	190⅜	+⅛	191⅞	179⅜
2½pc '09 (78.8)	3.18	3.44	171⅛xd	+⅛	172	161⅛
2½pc '11 (74.6)	3.25	3.48	177⅜	+⅛	177⅜	166⅞
[illegible]						

Other Fixed Interest

[illegible]

‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Dollar seesaws on Bundesbank remarks

MARKETS REPORT

By Simon Kuper

The dollar was dragged down and then up yesterday, after a Bundesbank official was first quoted as saying he could see no reason for the US currency to rise against the D-Mark before later telling journalists: "We would like a stronger dollar."

Mr Ernst Welteke, a council member of the bank, said his first comment, quoted by a wire agency, had been misunderstood. It caused the dollar to close 0.6 pfennigs lower against the D-Mark in London at DM1.501.

Mr Welteke's second comment, after the London market had closed, lifted the dollar back to near DM1.505. The latter comment matched his remarks of last Thursday when, with the dollar also at DM1.505, he had said he could see it rising a little.

The key data to appear yesterday had similarly mixed messages for currencies. Japan's trade balance showed an unexpected fall, but the bilateral surplus with the US rose for the first time in 20 months, a consequence of the yen's fall for most of that period. The dollar ended the day Y0.4 higher against the yen, but the market will be waiting for the September US trade figures, due tomorrow.

The UK's big public sector debt repayment initially boosted the pound, because gilts rose. Sterling closed in London at a new four-year peak against the dollar, half a cent higher at $1.672. However, it fell 0.3 pfennigs against the D-Mark in London. This suggested that the pound was reacting chiefly to changes in the dollar/D-Mark rate caused by Mr Welteke's comments.

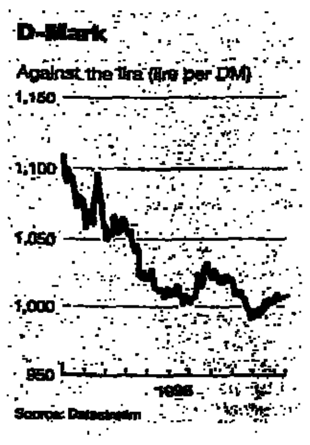
■ Pound in New York

Nov 18	—Latest—	— Prev. close —
£ spot	1.6700	1.6635
1 mth	1.6691	1.6625
3 mth	1.6665	1.6553
1 yr	1.6507	1.6440

The lira was unmoved by the news that Italy's lower house of parliament had passed the government's budget on Saturday. However, the currency lost L1 after Mr Welteke was quoted in support of the D-Mark. The lira ended the day in London at L1,007 to the D-Mark.

■ Mr Welteke denied trying to talk the dollar down from DM1.505 – the wire agency that quoted him misunderstood him, he said. His latter comments are in line with those of fellow Bundesbank officials who last week united to talk the US currency higher after it fell below DM1.50. At present no senior Bundesbank official seems to want the dollar to fall.

Any disagreement within the bank seems to centre on where precisely the dollar should be within a very narrow range against the D-Mark. Mr Joe Prendergast, foreign exchange strategist at Merrill Lynch in London, said: "We're left with the underlying view that dollar/D-Mark around the present level is OK."



Source: Datastream

■ Central bankers seem to want dollar/yen to move within as tight a range as they do dollar/D-Mark. Any disagreements seem to be about details. At a meeting in Tokyo yesterday Mr Alan Greenspan, chairman of the Federal Reserve, and Mr Hiroshi Mitsuzuka, the Japanese finance minister, reaffirmed their basic stance towards the currencies market but gave little hint of what that stance is.

The main message that foreign exchange strategists drew from their statements is that both men are fairly happy with the present rate of the dollar against the yen, and that they want any movements in the rate to be gradual. Most market strategists believe that over recent years central bankers have become much more adept at managing currencies. This has reduced volatility in the market, thus eating into trading banks' profits.

■ OTHER CURRENCIES

Nov 18	£	$
Czech Rp	44.6107 - 44.6706	26.6970 - 26.7170
Hungary	259.473 - 259.712	155.280 - 155.330
Iran	5016.00 - 5013.00	3000.00 - 3000.00
Kuwait	0.4988 - 0.4994	0.2985 - 0.2987
Poland	4.6905 - 4.6988	2.8070 - 2.8090
Russia	9172.12 - 9180.95	5489.00 - 5491.00
U.A.E.	6.1374 - 6.1414	3.6729 - 3.6731

■ In recent days the lira has become one of the least volatile currencies of all. Mr Nick Parsons, currency analyst at Paribas Capital Markets in Paris, has said that most traders are holding lira until they discover the central rate at which it enters the European exchange rate mechanism. In the meantime few news items can affect the currency, he said.

Italy's ERM debut could take place as early as next weekend, but is certainly expected before the European Union's Dublin summit on December 13 and 14. The entry rate is expected to be very near the lira's six-month moving average of L1,010 to the D-Mark. Confindustria, the Italian employers' federation, has softened its stance to indicate that L1,010 would be an acceptable central parity.

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POUND SPOT FORWARD AGAINST THE POUND

Nov 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.6851	-0.0231	558 - 744	17.7073	17.5913	17.6216	3.0	17.5651	2.8	-	-	104.8
Belgium	(BFr)	51.7346	-0.0587	773 - 919	51.8320	51.5290	51.6096	2.9	51.3446	3.0	50.1496	3.1	105.8
Denmark	(DKr)	9.8438	-0.0031	392 - 483	9.6568	9.5999	9.6239	2.5	9.5833	2.5	9.4044	2.6	107.1
Finland	(FM)	7.5619	+0.0012	554 - 683	7.5740	7.5290	-	-	-	-	-	-	84.5
France	(FFr)	8.4845	-0.0065	807 - 882	8.5058	8.4516	8.4655	2.7	8.4257	2.7	8.2482	2.8	108.7
Germany	(DM)	2.5101	-0.0033	088 - 113	2.5165	2.4990	2.504	2.9	2.4912	3.0	2.4348	3.0	107.9
Greece	(Dr)	396.488	-0.427	226 - 749	397.953	393.205	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9987	-0.0007	979 - 994	0.9997	0.9979	0.9984	0.4	0.9974	0.5	0.9909	0.8	101.5
Italy	(L)	2527.18	-0.97	557 - 875	2532.45	2518.22	2530.98	-1.8	2538.46	-1.8	2542.98	-0.6	76.7
Luxembourg	(LFr)	51.7346	-0.0587	773 - 919	51.8320	51.5290	51.6096	2.9	51.3446	3.0	50.1496	3.1	105.8
Netherlands	(Fl)	2.8147	-0.0034	130 - 163	2.8218	2.8039	2.8075	3.1	2.7925	3.2	2.7278	3.1	105.9
Norway	(NKr)	10.5850	+0.0358	801 - 898	10.6086	10.5068	10.5725	1.4	10.5525	1.2	10.4475	1.3	99.8
Portugal	(Es)	253.792	-0.258	675 - 910	254.200	252.761	253.987	-0.9	254.357	-0.9	-	-	95.7
Spain	(Pta)	211.303	-0.278	214 - 391	211.808	210.510	211.468	-0.9	211.698	-0.7	211.698	-0.2	80.0
Sweden	(SKr)	11.0386	-0.0059	278 - 494	11.0597	10.9917	11.0374	0.1	11.0348	0.1	11.0224	0.1	88.9
Switzerland	(SFr)	2.1210	-0.0096	195 - 224	2.1297	2.1175	2.1134	4.3	2.0983	4.3	2.0316	4.2	107.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	92.0
Ecu	-	1.3074	-0.0016	067 - 081	1.3108	1.3025	1.3054	1.8	1.301	1.9	1.2795	2.1	-
SDR†	-	1.143050	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6712	+0.0055	707 - 717	1.6718	1.6594	-	-	-	-	-	-	-
Brazil	(R$)	1.7216	+0.0056	208 - 223	1.7225	1.7099	-	-	-	-	-	-	-
Canada	(C$)	2.2414	+0.0107	403 - 425	2.2431	2.2243	2.2363	2.8	2.2254	2.9	2.1664	3.3	86.0
Mexico	(New Peso)	13.2174	+0.0449	093 - 255	13.2261	13.1164	-	-	-	-	-	-	-
USA	($)	1.6715	+0.005	710 - 720	1.6721	1.6603	1.6705	0.7	1.668	0.8	1.6522	1.2	96.2
Pacific/Middle East/Africa													
Australia	(A$)	2.1118	+0.0017	098 - 138	2.1140	2.0982	2.1131	-0.7	2.1138	-0.4	2.1134	-0.1	92.8
Hong Kong	(HK$)	12.9243	+0.0392	200 - 286	12.9297	12.8381	12.917	0.7	12.9032	0.7	12.8385	0.7	-
India	(Rs)	59.7562	+0.1805	712 - 412	59.6730	59.4060	-	-	-	-	-	-	-
Israel	(Shk)	5.3847	-0.0075	778 - 915	5.4388	5.3648	-	-	-	-	-	-	-
Japan	(Y)	186.239	+1.096	133 - 344	186.430	184.280	185.349	5.7	183.499	5.9	175.459	5.8	130.6
Malaysia	(M$)	4.2195	+0.0144	178 - 211	4.2223	4.2184	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3577	-0.0019	562 - 592	2.3593	2.3427	2.3644	-3.4	2.3739	-2.7	2.3946	-1.6	110.7
Philippines	(Peso)	43.9020	+0.1326	136 - 903	43.9925	43.8020	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2690	+0.0191	668 - 712	6.2794	6.2271	-	-	-	-	-	-	-
Singapore	(S$)	2.3392	+0.0081	381 - 403	2.3413	2.3249	-	-	-	-	-	-	-
South Africa	(R)	7.7867	-0.0015	802 - 932	7.7951	7.7586	-	-	-	-	-	-	-
South Korea	(Won)	1383.25	+3.43	275 - 375	1384.85	1374.06	-	-	-	-	-	-	-
Taiwan	(T$)	45.9663	+0.1389	191 - 134	46.0383	45.6583	-	-	-	-	-	-	-
Thailand	(Bt)	42.5021	+0.1409	852 - 190	42.5230	42.2260	-	-	-	-	-	-	-

† Rates for Nov 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.5684	-0.0459	660 - 708	10.6210	10.5650	10.5537	1.7	10.5084	2.3	10.3134	2.4	104.8
Belgium	(BFr)	30.9510	-0.129	260 - 760	31.0900	30.9160	30.891	2.3	30.7635	2.4	30.2235	2.4	105.9
Denmark	(DKr)	5.7895	-0.0194	685 - 705	5.7922	5.7675	5.7606	1.9	5.7422	1.9	5.6605	1.9	107.2
Finland	(FM)	4.5240	-0.013	215 - 265	4.5428	4.5193	4.5152	2.3	4.4965	2.4	4.414	2.4	84.5
France	(FFr)	5.0760	-0.0193	752 - 767	5.0957	5.0747	5.0676	2.0	5.0496	2.1	4.974	2.0	108.8
Germany	(DM)	1.5017	-0.0066	014 - 020	1.5093	1.5005	1.4988	2.3	1.4929	2.4	1.4681	2.2	108.0
Greece	(Dr)	237.205	-0.975	120 - 290	239.370	236.290	238.76	-7.9	241.33	-7.0	252.355	-6.4	67.3
Ireland	(I£)	1.6736	+0.0063	730 - 745	1.6750	1.6635	1.6733	0.5	1.673	0.2	1.6701	0.2	-
Italy	(L)	1511.91	-5.17	141 - 241	1519.26	1510.90	1515.06	-2.5	1521.51	-2.5	1534.56	-1.5	76.7
Luxembourg	(LFr)	30.9510	-0.129	260 - 760	31.0900	30.9160	30.891	2.3	30.7635	2.4	30.2235	2.4	105.9
Netherlands	(Fl)	1.6830	-0.0072	834 - 844	1.6926	1.6811	1.6801	2.1	1.6771	2.3	1.6365	2.5	106.1
Norway	(NKr)	6.3326	+0.0023	316 - 336	6.3611	6.3124	6.3289	0.7	6.3222	0.6	6.2978	0.6	99.5
Portugal	(Es)	151.835	-0.615	810 - 860	152.310	151.600	152.04	-1.8	152.335	-1.3	153.11	-0.8	95.8
Spain	(Pta)	126.415	-0.55	400 - 430	126.960	126.390	126.565	-1.7	126.855	-1.4	127.52	-0.9	80.1
Sweden	(SKr)	6.6040	-0.0236	995 - 085	6.6337	6.6040	6.6012	0.5	6.5914	0.8	6.544	0.9	89.0
Switzerland	(SFr)	1.2689	-0.0066	684 - 694	1.2783	1.2684	1.2651	3.6	1.2572	3.7	1.2244	3.5	107.6
UK	(£)	1.6715	+0.005	710 - 720	1.6723	1.6603	1.6705	0.7	1.668	0.8	1.6522	1.2	92.0
Ecu	-	1.2785	+0.0053	782 - 788	1.2789	1.2733	1.2798	-1.3	1.283	-1.4	1.2995	-1.6	-
SDR†	-	0.698601	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0003	998 - 999	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0300	+0.0003	298 - 301	1.0302	1.0298	-	-	-	-	-	-	-
Canada	(C$)	1.3410	+0.0024	407 - 412	1.3416	1.3390	1.3386	2.1	1.3336	2.2	1.3081	2.6	85.8
Mexico	(New Peso)	7.9075	+0.003	050 - 100	7.9100	7.9050	8.0255	-17.9	8.282	-19.4	9.1525	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2634	-0.0028	626 - 642	1.2643	1.2625	1.2649	-1.4	1.2688	-1.1	1.2723	-0.7	92.9
Hong Kong	(HK$)	7.7322	+0.0001	319 - 324	7.7327	7.7317	7.7321	0.0	7.7326	0.0	7.7487	-0.1	-
India	(Rs)	35.7500	-	500 - 500	35.8820	35.6470	35.985	-7.8	36.425	-7.6	-	-	-
Israel	(Shk)	3.2215	-0.0142	183 - 246	3.2685	3.2170	-	-	-	-	-	-	-
Japan	(Y)	111.420	-0.32	390 - 450	111.630	110.730	110.945	5.1	109.94	5.3	105.74	5.1	129.9
Malaysia	(M$)	2.5244	+0.001	241 - 246	2.5260	2.5235	2.5272	-1.4	2.5326	-1.3	2.5539	-1.2	-
New Zealand	(NZ$)	1.4105	-0.0054	100 - 110	1.4110	1.4099	1.416	-4.7	1.4203	-2.8	1.4518	-2.9	111.1
Philippines	(Peso)	26.2650	-	200 - 100	26.3100	26.2200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7506	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.3985	+0.0006	992 - 997	1.4000	1.3985	1.3973	1.8	1.3927	1.9	1.3715	2.0	-
South Africa	(R)	4.6585	-0.015	560 - 610	4.6760	4.6550	4.6892	-10.5	4.7442	-9.9	5.089	-9.2	-
South Korea	(Won)	827.550	-0.45	500 - 600	827.800	827.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5300	27.4760	27.5001	0.0	27.5028	0.0	-	-	-
Thailand	(Bt)	25.4275	+0.0075	250 - 300	25.4550	25.4220	25.5175	-4.2	25.695	-4.1	26.3225	-3.5	-

† SDR rate per $ for Nov 15. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 15: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3½	3⅜	3¼	3½	6.00	2.50	-
week ago	3	3½	3⅜	3¼	3½	6.00	2.50	-
France	3¾	3⅜	3⅜	3⅜	3⅝	3.20	-	4.75
week ago	3¾	3⅜	3⅜	3½	3⅝	3.20	-	4.75
Germany	3	3	3⅛	3⅛	3¼	4.80	2.50	3.00
week ago	3⅛	3	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5½	5¾	5⅞	5⅞	5⅞	-	-	6.25
week ago	5⅝	5¾	5⅞	5⅞	5⅞	-	-	6.25
Italy	7½	7½	7⅜	7	6⅞	9.00	7.50	8.05
week ago	7½	7½	7⅜	7⅛	6⅞	9.00	7.50	8.05
Netherlands	2⅞	2⅞	2⅞	3	3⅛	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	3	3⅛	-	3.00	3.30
Switzerland	1⅛	1½	1½	1⅞	2	-	1.00	-
week ago	1⅛	1⅛	1⅝	1⅝	2	-	1.00	-
US	5⅜	5¼	5⅝	5⅝	5⅝	-	5.00	-
week ago	5¼	5¼	5⅜	5⅝	5⅝	-	5.00	-
Japan	½	½	½	½	½	-	0.50	-
week ago	½	½	½	½	½	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅜	5½	5⅝	5⅝	-	-	-
week ago	-	5⅜	5½	5⅝	5⅝	-	-	-
US Dollar CDs	-	5.13	5.09	5.14	5.26	-	-	-
week ago	-	5.13	5.08	5.14	5.26	-	-	-
ECU Linked Ds	-	4½	4⅛	4⅛	4⅛	-	-	-
week ago	-	4⅜	4⅛	4¼	4⅛	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅞	-	-	-
week ago	-	3⅞	3¾	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	6½ - 6⅜	6⅜ - 6¼	6⅝ - 6½	6¾ - 6⅝	6⅝ - 6½	6⅝ - 6½
Spanish Peseta	7⅛ - 7	7 - 6⅞	6⅞ - 6¾	6⅝ - 6½	6⅝ - 6½	6⅝ - 6½
Sterling	5⅞ - 5⅝	5⅞ - 5¾	6⅛ - 6	6⅜ - 6¼	6⅝ - 6½	6⅞ - 6¾
Swiss Franc	1¾ - 1⅝	1¾ - 1⅝	1⅞ - 1¾	2 - 1⅞	2⅛ - 1⅞	2¼ - 2⅛
Can. Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅞ - 3⅝
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5½	5½ - 5⅜	5⅝ - 5½
Italian Lira	8¼ - 7⅞	7⅞ - 7⅝	7⅝ - 7½	7¼ - 7⅛	7⅛ - 6⅞	6⅞ - 6¾
Yen	⅝ - ½	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½
Asian $Sing	3⅞ - 3⅝	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.45	96.50	+0.03	96.50	96.46	6,070	44,937
Mar	96.41	96.44	+0.02	96.44	96.40	7,119	57,248
Jun	96.37	96.40	+0.02	96.41	96.36	2,383	31,201

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.80	96.80	-	96.80	96.79	6914	200612
Mar	96.80	96.81	-	96.82	96.80	12431	191732
Jun	96.70	96.70	-0.01	96.72	96.69	11808	168778
Sep	96.51	96.53	-	96.57	96.50	12773	141858

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.80	92.91	+0.08	92.94	92.80	9148	67331
Mar	93.47	93.58	+0.08	93.60	93.47	11506	65744
Jun	93.80	93.90	+0.07	93.93	93.80	3495	40752
Sep	93.95	94.03	+0.07	94.05	93.95	2282	24848

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.87	97.94	+0.08	97.95	97.85	4708	28068
Mar	97.83	97.92	+0.09	97.94	97.80	8796	33427
Jun	97.67	97.74	+0.08	97.76	97.63	2142	18504
Sep	97.45	97.50	+0.08	97.52	97.41	758	6441

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	99.44	-	-	-	0	n/a
Mar	99.37	99.37	+0.01	99.37	99.37	100	n/a
Jun	99.22	99.22	+0.02	99.22	99.22	100	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.83	95.86	+0.01	95.86	95.83	298	7757
Mar	95.85	95.86	+0.01	95.87	95.85	462	6049
Jun	95.84	95.84	+0.01	95.84	95.83	105	3428
Sep	95.73	95.74	-	95.75	95.73	50	3088

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.64	16.40	4.852	1.931	4885	5.442	20.45	490.6	408.5	21.34	4.100	1.933	4.332	3.232	359.9	2.527
Denmark	(DKr)	53.64	10	8.798	2.603	1.036	2620	2.919	10.97	263.2	219.1	11.45	2.199	1.037	2.324	1.734	193.1	1.355
France	(FFr)	60.97	11.37	10	2.958	1.177	2978	3.318	12.47	299.1	249.0	13.01	2.500	1.179	2.641	1.971	219.4	1.540
Germany	(DM)	20.61	3.842	3.380	1	0.398	1007	1.122	4.215	101.1	84.18	4.398	0.845	0.398	0.893	0.666	74.18	0.521
Ireland	(I£)	51.78	9.654	8.493	2.513	1	2530	2.818	10.59	254.1	211.5	11.05	2.123	1.001	2.243	1.674	186.4	1.308
Italy	(L)	2.047	0.382	0.336	0.099	0.040	100.	0.111	0.419	10.04	8.362	0.437	0.084	0.040	0.089	0.066	7.368	0.052
Netherlands	(Fl)	18.38	3.426	3.014	0.892	0.355	897.7	1	3.758	90.16	75.06	3.922	0.753	0.355	0.796	0.594	66.15	0.464
Norway	(NKr)	48.89	9.115	8.020	2.372	0.944	2388	2.661	10	239.9	199.7	10.43	2.005	0.945	2.118	1.580	176.0	1.235
Portugal	(Es)	20.38	3.800	3.343	0.989	0.394	995.7	1.109	4.169	100.	83.25	4.350	0.836	0.394	0.883	0.659	73.36	0.515
Spain	(Pta)	24.48	4.564	4.016	1.188	0.473	1196	1.332	5.007	120.1	100.	5.225	1.004	0.473	1.061	0.791	88.12	0.619
Sweden	(SKr)	46.86	8.736	7.686	2.274	0.905	2288	2.550	9.583	229.8	191.4	10	1.921	0.906	2.030	1.514	168.7	1.184
Switzerland	(SFr)	24.39	4.547	4.000	1.183	0.471	1191	1.327	4.988	119.7	99.62	5.205	1	0.471	1.057	0.788	87.79	0.616
UK	(£)	51.73	9.644	8.485	2.510	0.999	2527	2.815	10.58	253.8	211.3	11.04	2.121	1	2.241	1.672	186.2	1.307
Canada	(C$)	23.08	4.303	3.786	1.120	0.446	1128	1.256	4.721	113.3	94.29	4.926	0.946	0.446	1	0.746	83.09	0.583
US	($)	30.94	5.768	5.075	1.501	0.597	1511	1.684	6.328	151.8	126.4	6.603	1.269	0.598	1.340	1	111.4	0.782
Japan	(Y)	27.78	5.179	4.557	1.348	0.537	1357	1.512	5.682	136.3	113.5	5.929	1.139	0.537	1.204	0.898	100.	0.702
Ecu		39.56	7.379	6.492	1.920	0.764	1933	2.154	8.095	194.2	161.7	8.447	1.623	0.765	1.715	1.279	142.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6652	0.6654	+0.0015	0.6660	0.6640	17,791	61,192
Mar	0.6690	0.6685	+0.0008	0.6692	0.6685	495	5,537
Jun	–	0.6724	+0.0008	0.6725	–	199	2,671

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9009	0.9000	-0.0038	0.9038	0.8995	15,179	65,332
Mar	0.9120	0.9114	-0.0038	0.9124	0.9114	265	3,638
Jun	–	0.9266	–	–	–	5	775

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7884	0.7869	+0.0029	0.7884	0.7845	15,392	48,474
Mar	0.7900	0.7937	+0.0031	0.7949	0.7900	284	3,692
Jun	0.8010	0.8000	+0.0029	0.8010	0.8000	1	664

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6668	1.6650	+0.0016	1.6680	1.6610	5,384	60,557
Mar	1.6640	1.6620	+0.0026	1.6640	1.6614	129	1,204
Jun	–	1.6570	+0.0026	1.6580	–	45	204

UK INTEREST RATES

LONDON MONEY RATES

Nov 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 5	6 - 5¾	6⅛ - 6	6¼ - 6⅛	6⅝ - 6½	7 - 6⅞
Sterling CDs	-	-	6⅛ - 6	6¼ - 6⅛	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	6⅛ - 6	6 - 5¾	6⅛ - 6	[illegible]	[illegible]	[illegible]
Discount Market deps	6⅛ - 5½	6⅛ - 5½	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Nov 15, 5.8425pc. ECGD fixed rate Stg. Export Finance. Make up day Oct 31, 1996. Agreed rate for period Nov 26, 1996 to Dec 24, 1996, Scheme III 7.25pc. Reference rate for period Oct 1, 1996 to Oct 31, 1996, Scheme IV & V 6.001pc. Finance House Base Rate 6pc from Nov 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.52	93.55	+0.02	93.55	93.52	9790	97922
Mar	93.24	93.29	+0.05	93.30	93.23	13273	111812
Jun	92.92	92.96	+0.03	92.97	92.91	8051	100023
Sep	92.70	92.73	+0.02	92.75	92.70	4623	81348
Dec	92.56	92.59	+0.02	92.61	92.56	2513	47141

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9350	0.12	0.09	0.05	0.07	0.30	0.63
9375	0.01	0.03	0.04	0.21	0.49	0.83
9400	0	0.01	0.01	0.45	0.72	1.05

Est. vol. total, Calls 1441 Puts 13587. Previous day's open int., Calls 194875 Puts 154605

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	•Rea Brothers	6.00
•Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
•Henry Ansbacher	6.00	Financial & Gen Bank	7.00	•Singer & Friedlander	6.00
Bank of Baroda	6.00	•Robert Fleming & Co	6.00	•Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	6.00	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	•Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	•Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	•Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
•Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	• Members of London Investment Banking Association	
Clydesdale Bank	6.00	•Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

EMS EUROPEAN CURRENCY UNIT RATES

Nov 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.787873	-0.001253	-0.54	5.12	21
Portugal	195.792	195.087	-0.337	-0.36	2.22	3
Spain	162.493	162.454	+0.041	-0.02	1.85	0
Netherlands	2.15214	2.16409	+0.00001	0.56	1.26	-4
Belgium	39.3960	39.7774	+0.0129	0.97	0.85	-7
Germany	1.91007	1.92974	+0.00002	1.03	0.79	-10
Austria	13.4383	13.5803	+0.0004	1.06	0.78	-8
Denmark	7.28580	7.41030	+0.00045	1.71	0.11	-12
France	6.40608	6.52301	+0.00137	1.83	0.00	-15
NON ERM MEMBERS						
Greece	292.867	304.663	-0.133	4.03	-2.12	-
Italy	2106.15	1942.28	-0.34	-7.78	10.42	-
UK	0.786652	0.766524	+0.000033	-2.56	4.25	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.620	-	-	4.76	0.08	0.05	0.37
1.630	-	3.62	-	0.05	0.43	-
1.640	2.15	2.87	3.35	0.08	0.63	1.25
1.650	1.24	2.25	2.79	0.10	1.02	1.64
1.660	0.52	1.69	2.20	0.46	1.44	2.09

Previous day's vol., Calls 4,352 Puts 4,436. Prev. day's open int., Calls 169,298 Puts 167,095

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.50	94.50	-	94.51	94.50	57,426	439,887
Mar	94.49	94.49	-	94.51	94.48	90,906	382,909
Jun	94.41	94.43	+0.01	94.43	94.41	95,066	294,735

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.00	95.01	+0.01	95.01	95.00	39	2,670
Mar	94.98	94.99	+0.01	94.99	94.98	112	2,788
Jun	-	94.91	+0.01	-	-	15	1,538

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
9675	0.05	0.07	0.11	0.15	0	0.02	0.05	0.09
9700	0	0.02	0.03	0.05	0.20	0.21	0.21	0.22
9725	0	0	0.01	0.01	0.45	0.45	0.43	0.45

Est. vol. total, Calls 8681 Puts 2778. Previous day's open int., Calls 482248 Puts 285984

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9800	0.10	0.23	0.29	0.16	0.31	0.55
9825	0.03	0.13	0.17	0.34	0.46	0.68
9850	0.01	0.06	0.11	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 105 Puts 0. Previous day's open int., Calls 4738 Puts 2170

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9275	0.21	0.88	1.24	0.05	0.05	0.09
9300	0.05	0.66	1.01	0.14	0.08	0.11
9325	0.02	0.46	0.81	0.36	0.13	0.16

Est. vol. total, Calls 6273 Puts 2005. Previous day's open int., Calls 124758 Puts 84109

COMMODITIES AND AGRICULTURE

WTO sees few signs of upturn in beef

By Frances Williams in Geneva

The world market for beef shows little sign of pulling out of its current depressed state, the World Trade Organisation says in its annual report on the international meat markets.

Beef prices have slumped this year due to the impact of bovine spongiform encephalopathy (BSE), or "mad cow" disease, on European demand, and a big expansion in US production that will make it a net exporter this year for the first time since 1945.

In mid-1996 prices for manufacturing beef in the US were 20 per cent below their levels in early 1995 and 40 per cent below their levels in early 1994, while returns from exports to Japan were down nearly 40 per cent over the year, the report says.

The price outlook depends largely on the response of US producers to rising feed-grain costs and the longer term impact of the "mad cow" scare, both of which are uncertain, the WTO points out.

In the European Union, beef consumption has plunged even in countries free of BSE. EU intervention stocks, which were virtually zero at the beginning of 1996, are now rising again, the report notes.

However, beef consumption is rising strongly in Japan and South Korea, while falling home production has lifted Russian import demand. Japanese imports are predicted to top 1m tons this year, overtaking those of the US to make Japan the world's biggest beef importer.

World beef trade is estimated at 4.86m tons in 1996, up 3.5 per cent from 1995.

Low prices in the US market prevented Australia and New Zealand, the world's biggest and fourth-biggest exporters, respectively, from benefiting from this year's easier market access arrangements agreed in the Uruguay Round global trade accords. At the same time, Canada's exports, mostly to the US, have jumped by one-quarter.

Argentina's beef industry has suffered from bad weather, declining domestic consumption and lower shipments to the EU, its biggest customer, because of the "mad cow" crisis. But exports from Brazil and Uruguay have risen strongly in 1996. Uruguay has been helped by certification as a country free of foot-and-mouth disease, which has enabled it to ship beef to the US.

Argentina is also working towards FMD-free status, which should lift export performance in Asia as well as North America.

The International Markets for Meat 1995–96. WTO, 154 Rue de Lausanne. CH-1211 Geneva 21. SFr15.

US gas prices buoyed by low storage levels

By Deborah Hargreaves

US natural gas prices are pushing towards their highest for three to four years as the market enters the winter with stored gas at low levels in the key consuming area on the US east coast.

Futures prices on the New York Mercantile Exchange have stood at \$2.70–\$2.80 per million British thermal units for several weeks.

The US gas market is much more competitive than in the UK, with supply contracts based mostly on the futures price. Natural gas futures were introduced on the Nymex six years ago, with most business based on the Henry Hub delivery point in Louisiana.

Gas for delivery in response to a big swing in demand during a cold spell is stored in old or depleted reservoirs. But cold weather in January and February this year led to a large draw on the stocks, which meant stored gas is entering the current winter at low levels.

The American Gas Association said last week that US gas inventories had fallen to 22bn cubic feet, or 85 per cent of production capacity.

Storage levels in the main consuming region of the US north-east are 96 per cent full compared with 93 per cent full in a normal year. But on the west coast levels have fallen to 69 per cent of capacity from 93 per cent in a typical year.

This has made the market particularly sensitive to weather reports. "At the moment, this market is a pure weather play. If there is a mild winter, companies may have to sell off their stored gas at discounted prices," said Mr Mark Gurley, portfolio manager at Utilicorp, the second largest US gas trading company.

Prices in New York, where many households use gas for domestic heating, are 60 cents to \$1 per 1,000 cubic feet higher than on the west coast, where demand is usually lower.

Many power generators in the US have the facility to switch between gas and oil depending on price, but since oil prices have been high recently, many are still using gas even though the market is strong.

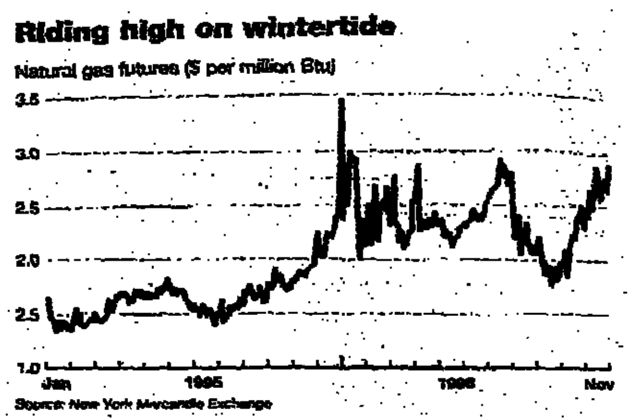
However, high gas prices have encouraged the marketing of new capacity, with more than 150 gas rigs currently operating in the Gulf of Mexico. A Canadian subsidiary of Enron, the US gas company, has begun delivering 1bn cubic feet of gas a day from Alberta to Chicago.

Two other large developments in the Gulf of Mexico are due to bring gas on line in the near future.

The additional capacity coming on stream has depressed gas futures prices going out as far as 1998 and 1999. "The futures and forwards market has already started discounting new capacity," said Mr Gurley.

Riding high on wintertide

Natural gas futures ($ per million Btu)



Source: New York Mercantile Exchange

Nickel at lowest for two years

MARKETS REPORT

Nickel for delivery in three months on the London Metal Exchange lost 6 per cent of its value yesterday, falling by \$430 a tonne from Friday's to \$6,620 in late trading, the lowest for two years, writes Kenneth Gooding.

Traders suggested the fall was caused by speculators, who use charts and other technical indicators rather than any change in nickel's fundamental outlook.

Meanwhile, three-month copper gained \$52 a tonne on the LME to reach \$2,200. Worries about LME stocks – currently at a six-year low – also saw the premium for immediate delivery, compared with three-months metal, reach \$130 a tonne. Copper last night was \$212 a tonne above its low point last week, or 11 per cent, another illustration of the market's volatility.

Traders suggested the LME might report a further drop of 5,000 tonnes in stocks today, taking them below the psychologically important 100,000 tonnes level.

Conference told of bright future for African gold

By Kenneth Gooding, Mining Correspondent

Gold mining will develop into a substantial industry in several African countries within 10 years and transform their economies, according to Mr Michael Spriggs, director corporate finance division, at SBC Warburg, speaking at a conference in London.

Mr Spriggs pointed out that more than 200 companies were actively exploring in sub-Saharan Africa and at least 15 of them had established world-class gold deposits in Ghana, Ivory Coast, Senegal, Burkina Faso and Mali. Prospects for further discoveries were excellent, he said.

However, he warned that substantial investment would be required and Africa was competing for risk capital with many other mining countries in emerging markets.

"If governments do not create sufficiently attractive investment codes and mining legislation, then mining companies – and banks – will simply switch their attention to more favourable areas," Mr Spriggs told the conference.

The fact that Africa "could do better" was illustrated by the fact that the surge in exploration spending had not been matched by any upturn in capital expenditure on mine projects. Africa continued to lag behind its global competitors.

Mr Spriggs said Mining Journal projected in 1995 that in the years to 2000 total expenditure on mining projects worldwide would be \$18bn and Africa was expected to account for 20 per cent. However, if South Africa spending was excluded, Africa's share fell to only 5 per cent.

At the conference, about the risks and opportunities of mining in Africa and organised by the Control Risks consultancy and Mining Journal Research Services, Mr Spriggs said that because of the speed of political adjustment in Africa, many countries had yet to finalise their tax and financial legislation.

But "delays in implementing important legislative amendments – and the belief that some aspects of investment codes are negotiable – can cause considerable uncertainty for mining investment," he said.

Some of the less obvious risks of mining in Africa were highlighted by other speakers.

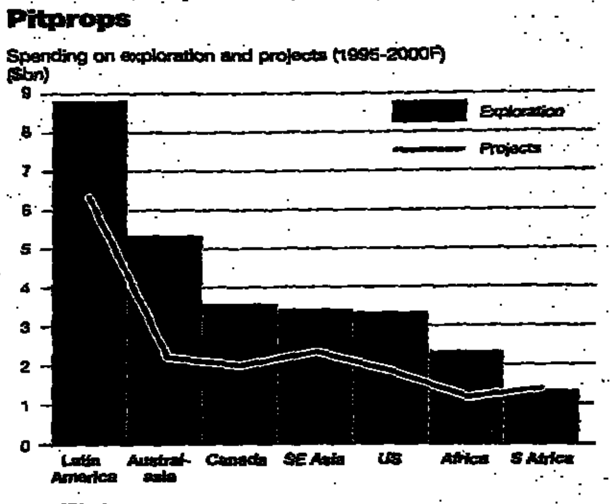
Mr Chaloka Beyani, a law lecturer at the London School of Economics, said some mining companies had been forced to withdraw from concessions in Tanzania and Zambia by local people who regarded the land as a tribal area.

Equipment had been deliberately destroyed and cattle set to graze on the concessions even though the people had been moved to new grazing areas, said Mr Beyani.

Mr John Bray, principal research consultant at Control Risks Group, pointed out that Zaire might be at the point of disintegration while other states, including Liberia and Somalia, already had disintegrated. But there were also examples of successful recovery from collapse, such as Uganda, Ghana, Eritrea and Ethiopia, he said.

Pitprops

Spending on exploration and projects (1995-2000F) ($bn)



Source: SBC Warburg

Exchanges compete for contracts

By Laurie Morse in Chicago

As hedging in the natural gas markets grows, so does competition for new energy contracts among US futures exchanges.

The New York Mercantile Exchange was a pioneer in the industry when it opened the first futures contract in April 1990. That contract has grown to the second most actively traded futures product on Nymex, after crude oil futures.

Seeking to create arbitrage trading opportunities with Nymex's eastern-delivered product, Kansas City Board of Trade opened a Western Natural Gas futures contract in August 1995, with a delivery point in Waha, Texas.

The contract's modest success demonstrated to Nymex that there was a need for derivatives contracts that priced gas flowing into the major California market.

This May, Nymex opened a Permian Basin natural gas futures contract to compete with the KCBT's market and then in September, a contract for natural gas delivered in Alberta, Canada.

Volume in the new Nymex contracts is low, but traders expect it to expand as more users learn to hedge needs.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1406-7	1431-2
Previous	1410.5-11.5	1435-36
High/low	1414/1413.5	1446/1431
AM Official	1412-3	1439-9.5
Kerb close		1434-4.5
Open int.	238,096	
Total daily turnover	85,136	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1265-70	1295-
Previous	1275-85	1305-06
High/low	1282	1310/1295
AM Official	1260-61	1305-10
Kerb close		1300-05
Open int.	6,502	
Total daily turnover	1,244	

■ LEAD ($ per tonne)

Close	708-9	717.5-8.0
Previous	715.5-6.5	724-5
High/low	712/705	725/715
AM Official	706-6.5	716.5-7.0
Kerb close		717-77.5
Open int.	40,115	
Total daily turnover	11,873	

■ NICKEL ($ per tonne)

Close	6570-80	6680-85
Previous	6950-60	7055-60
High/low	6990/6680	6980/6605
AM Official	6680-85	6800-02
Kerb close		6620-30
Open int.	44,427	
Total daily turnover	27,661	

■ TIN ($ per tonne)

Close	6000-10	6010-20
Previous	6030-40	6050-55
High/low	6010	6050/6005
AM Official	6010-20-	6020-30
Kerb close		6030-35
Open int.	16,383	
Total daily turnover	7,074	

■ ZINC, special high grade ($ per tonne)

Close	1034-5	1058-8.5
Previous	1039.5-40.5	1060-61
High/low	1036	1063/1055
AM Official	1036-6.5	1058-9
Kerb close		1057.5-8.0
Open int.	85,400	
Total daily turnover	26,431	

■ COPPER, grade A ($ per tonne)

Close	2248-53	2137-8
Previous	2225-35	2120-25
High/low	2290	2198/2125
AM Official	2288-90	2165-7
Kerb close		2158-9
Open int.	175,200	
Total daily turnover	108,087	

■ LME AM Official £/$ rate: 1.6677
LME Closing £/$ rate: 1.6713

Spot: 1.6700 3 mths: 1.6667 6 mths: 1.6619 9 mths: 1.6568

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	106.55	+5.30	106.55	101.50	496	2,284
Dec	105.65	+4.20	105.90	100.80	11,778	23,912
Jan	104.15	+4.10	104.50	99.80	156	1,968
Feb	102.65	+3.60	102.60	92.60	19	1,116
Mar	101.10	+3.45	101.00	96.80	5,523	15,811
Apr	100.15	+3.40	–	–	21	569
Total					18,485	64,104

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	379.00-379.30		
Opening	380.00-380.30		
Morning fix	379.70	227.706	484.118
Afternoon fix	379.10	226.938	481.836
Day's High	380.10-380.40		
Day's Low	378.70-379.00		
Previous close	379.30-379.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.19 6 months 3.32
2 months ....3.15 12 months 3.40
3 months 3.14

Silver Fix	p/troy oz.	US cts equiv.
Spot	294.30	490.75
3 months	298.60	496.85
6 months	302.90	502.70
1 year	312.70	515.40

Gold Coins	$ price	£ equiv.
Krugerrand	378-380	226-228
Maple Leaf	384.35-386.80	-
New Sovereign	88-91	52-54

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	378.4	-1.4	-	-	-	-
Dec	379.7	-1.4	381.5	379.4	24,439	70,064
Feb	381.8	-1.4	383.1	381.3	5,131	27,706
Apr	383.8	-1.5	384.0	383.2	1,333	12,577
Jun	385.8	-1.6	386.8	385.5	383	13,145
Aug	388.0	-1.6	388.6	387.8	321	5,040
Total					32,475	176,710

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	388.8	-0.5	389.4	388.2	1,049	17,552
Apr	391.3	-0.6	392.0	390.5	65	6,424
Jul	394.2	-0.6	-	-	2	993
Oct	397.5	-0.6	-	-	-	136
Total					1,116	27,105

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	119.25	-1.40	120.25	119.25	823	4,823
Mar	120.45	-1.40	121.25	120.50	983	3,482
Jun	121.55	-1.40	122.00	122.00	12	235
Dec	123.05	-1.40	-	-	-	[illegible]
Total					1,818	8,691

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Nov	487.6	-5.5	-	-	10	10
Dec	488.3	-5.5	494.0	487.0	17,006	51,372
Jan	490.3	-5.5	-	-	-	28
Mar	495.3	-5.5	499.0	494.5	4,298	18,747
May	499.9	-5.5	500.0	499.0	13	5,648
Jul	504.5	-5.5	507.5	503.5	786	6,046
Total					22,436	91,698

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	23.87	-0.30	24.22	23.85	32,416	46,841
Jan	23.73	-0.28	24.01	23.65	19,652	82,088
Feb	23.47	-0.23	23.68	23.40	5,487	40,447
Mar	23.10	-0.22	23.25	23.04	2,102	25,429
Apr	22.79	-0.15	22.88	22.74	2,022	18,828
May	22.20	-0.27	22.40	22.30	1,034	14,225
Total					68,048	359,559

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	23.05	-0.25	23.18	22.98	11,877	77,182
Feb	22.64	-0.27	22.75	22.60	1,742	29,003
Mar	22.22	-0.11	22.28	22.10	592	[illegible]
Apr	21.70	-0.09	21.70	21.59	405	9,318
May	21.11	-0.15	21.11	21.11	100	4,624
Jun	20.68	-0.14	20.70	20.62	422	9,050
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	71.90	-0.71	72.65	71.50	15,504	36,542
Jan	71.50	-0.50	72.00	71.10	8,613	39,799
Feb	69.70	-0.30	70.00	69.40	2,754	16,171
Mar	66.65	-0.20	66.65	65.25	1,200	10,312
Apr	62.85	-0.23	63.00	62.00	606	6,656
May	60.10	-	60.20	60.10	218	3,258
Total					30,652	130,394

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	218.75	-2.00	219.75	218.75	6,505	24,412
Jan	215.75	-0.50	218.25	213.50	3,536	30,007
Feb	209.50	-0.25	210.25	207.75	780	10,257
Mar	202.00	-	202.00	200.75	304	6,526
Apr	194.50	-	194.25	193.75	150	4,579
May	189.25	-0.25	191.50	190.50	29	2,630
Total					10,566	89,308

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.890	+0.062	3.010	2.880	26,675	31,686
Jan	2.935	+0.052	2.980	2.840	13,013	35,868
Feb	2.680	+0.023	2.730	2.630	4,730	16,826
Mar	2.425	+0.020	2.455	2.380	1,655	10,954
Apr	2.195	+0.015	2.220	2.160	736	6,480
May	2.110	+0.020	2.125	2.060	325	5,778
Total					51,442	154,980

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	65.95	-0.97	67.10	65.90	13,732	21,851
Jan	64.45	-0.62	65.20	64.45	6,865	19,550
Feb	64.43	-0.27	64.70	64.25	2,003	8,737
Mar	64.65	-0.42	64.75	64.75	359	4,088
Apr	66.80	-	66.80	66.70	373	3,095
May	65.30	-0.17	65.30	65.30	347	1,509
Total					23,779	61,285

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	93.90	-	-	-	-	24
Jan	95.60	-	95.25	95.25	15	2,028
Mar	97.30	-	98.50	98.50	5	1,346
May	98.60	+0.10	98.50	97.75	40	1,373
Jul	99.85	+0.10	99.75	99.00	41	298
Sep	96.25	+0.40	96.00	95.85	10	507
Total					111	5,778

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	394.00	-3.25	395.75	391.00	8,113	22,184
Mar	384.50	-3.75	387.50	381.00	5,983	24,390
May	361.50	-3.00	363.50	360.00	407	3,267
Jul	344.50	-5.00	348.00	343.50	895	12,162
Sep	348.50	-5.00	352.00	347.50	28	367
Dec	358.00	-4.00	359.50	358.00	50	196
Total					15,492	63,147

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	266.00	-3.5	268.50	265.50	38,704	101,428
Mar	269.25	-2	271.25	268.75	16,380	111,074
May	275.00	-1.75	276.50	273.25	5,014	44,648
Jul	277.75	-1.75	279.50	276.00	5,282	41,053
Sep	271.75	-	274.30	270.75	22	4,968
Dec	271.25	+0.75	272.00	268.50	3,300	31,957
Total					68,244	338,183

■ BARLEY LIFFE (£ per tonne)

Nov	93.25	+1.65	93.00	91.75	10	262
Jan	94.25	+1.50	92.50	92.50	9	748
Mar	95.25	+1.25	-	-	-	232
May	96.25	+1.25	-	-	-	118
Sep	91.85	-	-	-	-	0
Nov	93.85	-	-	-	-	107
Total					19	1,465

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	711.25	+12.25	712.00	697.00	2,883	2,923
Jan	703.25	+8.5	704.50	692.50	42,622	73,327
Mar	701.75	+3.75	704.50	692.50	8,584	34,357
May	702.75	+3.5	705.00	694.50	2,287	19,657
Jul	703.50	+1.75	706.00	696.00	2,995	14,853
Aug	701.00	+1	701.00	695.50	146	2,198
Total					59,986	156,196

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	23.63	+0.1	23.72	23.40	12,770	32,355
Jan	23.88	+0.11	23.99	23.65	8,833	23,231
Mar	24.16	+0.09	24.30	23.98	5,873	19,721
May	24.49	+0.09	24.52	24.25	2,118	11,428
Jul	24.76	+0.06	24.78	24.50	747	5,806
Aug	24.75	+0.10	24.70	24.55	36	1,470
Total					28,460	98,694

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	238.9	+4.6	239.0	233.0	13,581	27,852
Jan	227.9	+2.9	228.0	222.6	6,799	19,964
Mar	221.6	+1.5	222.8	218.3	5,036	20,705
May	217.2	+0.2	218.0	214.5	2,028	10,714
Jul	217.1	+1.1	217.5	214.5	471	7,427
Aug	216.5	+1	216.5	213.7	50	1,625
Total					28,037	90,458

■ POTATOES LIFFE (£/tonne)

Nov	58.5	-2.0	-	-	-	-
Mar	65.3	-2.0	66.0	65.5	61	1,286
Apr	74.3	-2.0	-	-	-	17
May	84.5	-2.0	-	-	-	-
Apr	118.5	-	119.0	118.0	23	32
Total					84	1,335

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Nov	1424	+14	1440	1430	31	390
Dec	1350	+32	1335	1328	74	486
Jan	1310	+12	1325	1290	88	1,008
Apr	1329	+8	1340	1325	23	764
Jul	1125	+8	1130	1125	15	245
Oct	1270	+20	1265	-	34	[illegible]
Total					222	3,893

	Close	Prev
BFI	1504	1515

FUTURES DATA

All futures data supplied by CMS.

Tea

The Tea Broker's Association reports, good general demand. Landed Assams were firm, with better sorts often dearer. Best Kenyas were sometimes lower but most East Africans were fully firm. The few Ceylons were strong and dearer. Offshore medium Kenyas and Zimbabwes sold well at firm rates. Quotations: landed best available 150p/kg, - 200p/kg., good 130p/kg. - 130p/kg., good medium 118p/kg. - 118p/kg., medium 112p/kg. - 112p/kg., low medium 98p/kg. - 98p/kg. The highest price realised this week was 150p for a Sri Lanka bop.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	880	-6	890	880	739	15,359
Mar	913	-12	926	913	3,804	47,049
May	931	-12	942	930	365	14,634
Jul	946	-12	958	945	51	12,676
Sep	963	-11	974	963	54	7,151
Dec	978	-12	987	980	804	8,336
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1311	-17	1336	1306	413	864
Mar	1358	-10	1375	1357	4,660	42,623
May	1381	-8	1390	1377	344	9,867
Jul	1394	-8	1398	1393	223	7,354
Sep	1410	-9	1411	1410	274	8,492
Dec	1429	-9	1445	1448	11	901
Total					5,825	77,214

■ COCOA (ICCO) (SDR's/tonne)

Nov 18	Price	Prev. day
Daily	1014.34	989.47

■ COFFEE LIFFE ($/tonne)

Nov	1511	+9	1524	1500	105	2,058
Jan	1446	+4	1459	1436	1,486	17,515
Mar	1387	+1	1399	1380	633	6,396
May	1368	-2	1382	1362	148	4,565
Jul	1368	-2	1382	1360	6	656
Sep	1370	-	-	-	-	237
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	119.55	-2.95	124.95	119.00	2,227	3,670
Mar	112.65	-1.65	115.90	112.60	4,005	16,561
May	109.45	-0.75	111.50	109.00	482	4,952
Jul	107.80	-0.70	110.00	107.50	85	1,131
Sep	106.25	-1.00	108.40	106.50	40	736
Dec	104.75	-0.50	106.50	105.25	2	413
Total					6,841	27,665

■ COFFEE (ICO) (US cents/pound)

Nov 15	Price	Prev. day
Comp. daily	97.79	98.80
15 day average	96.42	96.52

■ WHITE SUGAR LIFFE ($/tonne)

Dec	310.5	+6.6	313.5	304.5	291	411
Mar	303.2	+1.2	303.4	302.0	922	15,255
May	303.6	+0.6	303.7	302.0	291	4,889
Aug	304.4	+0.8	304.5	303.5	44	2,320
Oct	298.3	-0.5	298.5	298.3	27	1,211
Dec	300.3	+1.0	300.0	298.5	15	326
Total					1,218	24,368

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	10.48	+0.11	10.48	10.34	4,160	85,752
May	10.54	+0.06	10.56	10.47	1,441	30,330
Jul	10.48	+0.05	10.50	10.43	433	19,628
Oct	10.48	+0.06	10.48	10.44	433	11,958
Mar	10.48	+0.04	10.50	10.46	281	3,954
May	10.49	+0.04	10.50	10.50	16	800
Total					6,766	152,819

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	72.28	+0.79	72.85	71.85	5,719	13,677
Mar	74.07	+0.65	74.65	73.80	8,404	19,795
May	75.43	+0.81	75.90	75.20	1,162	10,155
Jul	76.15	+0.66	76.80	76.10	419	6,943
Oct	76.88	+0.25	76.80	76.35	17	1,288
Dec	76.80	+0.30	76.75	76.20	304	5,881
Total					13,824	58,055

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	101.00	+1.25	101.00	100.25	623	11,766
Mar	103.85	+1.25	103.90	103.10	195	6,314
May	105.60	+1.30	106.50	105.60	98	2,331
Jul	108.10	+1.80	108.40	108.40	461	627
Sep	111.10	+1.80	109.95	108.95	-	251
Nov	110.10	+1.80	110.30	110.30	37	53
Total					[illegible]	22,681

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 18	Nov 14	month ago	year ago
1870.8	1856.3	1857.5	2168.4

■ CRB Futures (Base: 1967 = 100)

Nov 15	Nov 14	month ago	year ago
244.70	243.41		

■ GSCI Spot (Base: 1970 = 100)

Nov 15	Nov 14	month ago	year ago
211.24	210.99	211.65	184.56

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	66.075	-0.625	66.900	67.950	9,806	29,332
Feb	64.225	-0.700	64.850	64.125	2,667	23,805
Apr	65.850	-0.575	66.250	65.750	2,634	15,885
Jun	63.575	-0.325	63.950	63.400	585	7,095
Aug	62.900	-0.375	63.275	62.800	374	6,928
Oct	65.425	-0.200	65.600	65.400	419	4,271
Total					18,790	88,281

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	58.250	-0.400	58.950	58.100	4,635	11,557
Feb	76.825	-0.600	77.400	76.525	2,470	10,525
Apr	71.800	-0.350	72.250	71.700	520	4,281
Jun	75.075	-0.550	75.450	74.975	238	4,057
Jul	72.500	-0.200	72.650	72.500	106	1,336
Aug	69.100	-0.475	69.350	69.000	48	842
Total					8,154	33,328

■ PORK BELLIES CME (40,000lbs; cents/lb)

Feb	76.875	-1.700	79.850	76.850	2,754	4,438
Mar	76.325	-1.825	79.150	76.350	168	615
May	76.975	-1.825	78.600	76.800	100	464
Jul	78.000	-0.625	78.000	76.500	51	349
Aug	74.900	-0.075	74.900	74.900	16	56
Total					3,089	5,922

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1400	37	65	16	41
1450	14	39	43	64
1500	4	39	82	93
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2050	182	171	72	89
2150	103	121	28	137
2250	48	82	7	196
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1400	74	60	26	73
1450	45	42	49	105
1500	27	28	81	141
■ COCOA LIFFE	Dec	Mar	Dec	Mar
900	1	35	21	22
925	-	25	45	37
950	-	18	40	55
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
2200	-	-	35	82
2250	-	103	-	-
2300	78	-	72	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	\$21.02-1.09w	-0.285
Brent Blend (dated)	\$22.74-2.77	-0.45
Brent Blend (Jan)	\$22.95-3.00	-0.38
W.T.I.	\$23.65-3.68w	-0.39

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	\$233-235	-5
Gas Oil	\$222-223	-2
Heavy Fuel Oil	\$112-114	
Naphtha	\$222-224	-3
Jet fuel	\$247-249	-2
Diesel	\$233-235	-2

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	15.60-5.80	+0.325

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

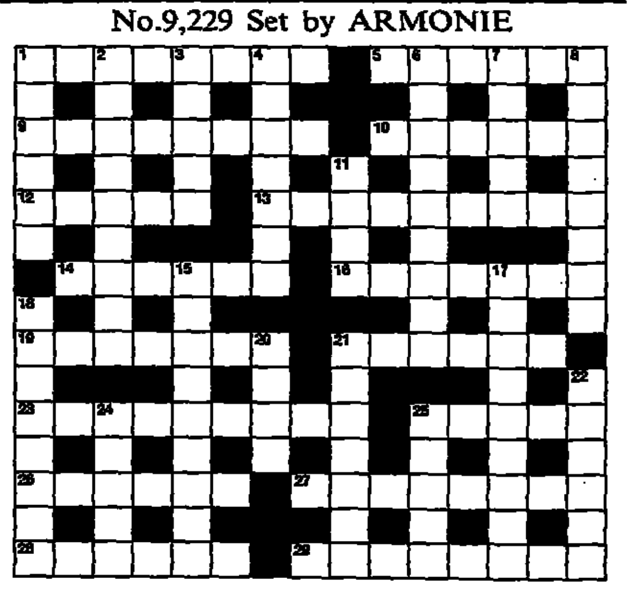
Gold (per troy oz)♣	\$379.15	-0.30
Silver (per troy oz)♣	491.00c	+6.0
Platinum (per troy oz.)	\$386.00	+0.75
Palladium (per troy oz.)	\$118.75	+1.00
Copper	107.0c	+5.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.89r	+0.09
Tin (New York)	282.50	
Cattle (live weight)	107.96p	+3.95*
Sheep (live weight)	132.55p	-4.82*
Pigs (live weight)†	86.69p	-2.90*
Lon. day sugar (raw)	\$258.40	-0.80
Lon. day sugar (wte)	\$307.00	-3.50
Barley (Eng. feed)	£100.4	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	81.50p	
Rubber (Jan)♥	81.50p	
Rubber (KL RSS No1)	319.0z	+0.50
Coconut Oil (Phil)§	\$760.0y	-5.0
Palm Oil (Malay.)§	582.5x	+12.5
Copra (Phil)§	485.0	+15.0
Soyabeans (US)	188.0z	
Cotton Outlook'A' Index	75.65	
Wooltops (64s Super)	393p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jan x Dec v Nov/Dec y Dec/Jan♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on no head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,229 Set by ARMONIE



ACROSS

1 Laughter or a term embracing it (8)
5 A dispatch about Centigrade scale (6)
9 Engineers meaning to take English regiment's record (8)
10 The charges incurred by painter rejected in squabble (6)
12 Provide endless drink in railway carriage (5)
13 Band disturbed carthorse (9)
14 A sign about revolutionary game being played smoothly (6)
16 Irate CO destroyed salacious literature (7)
19 Pirate's pronounced, vulgar manner (7)
21 Shop's exit (6)
23 Stumble after nearly catching model in the gloaming (9)
25 A vessel from the local, for example, is returned (5)
26 Greek Island's sound ways (6)
27 Drills junction box (3,5)
28 Fancy address outside the capital of Norway (6)
29 Food from the sea is project king has not rejected (8)

DOWN

1 Poet found editing a chore (6)
2 It's a long way in a short time (5,4)
3 One getting up in the middle of a flight (5)
4 The artist is to draw game (7)
6 Page gets coats mislaid and he takes all the blame (9)
7 Live salmon, initially spotted in outflow (5)
8 Settlement for conflict is in hand (8)
11 The high spot is when one embraces maiden (4)
15 Room a tenant's opening gets filled with separate partners (9)
17 I mean to make a home, resolutely (2,7)
18 Novel plan for the reduction of car noise (8)
20 Authentic old coin (4)
21 To tip lavishly is boring (3,4)
22 Knight had a meal and is to tidy up (6)
24 Developed a garment redhead wears (5)
25 Food firm included in boycott (5)

Solution to Saturday's prize puzzle on Saturday November 30.
Solution to yesterday's prize puzzle on Monday December 2.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

[illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

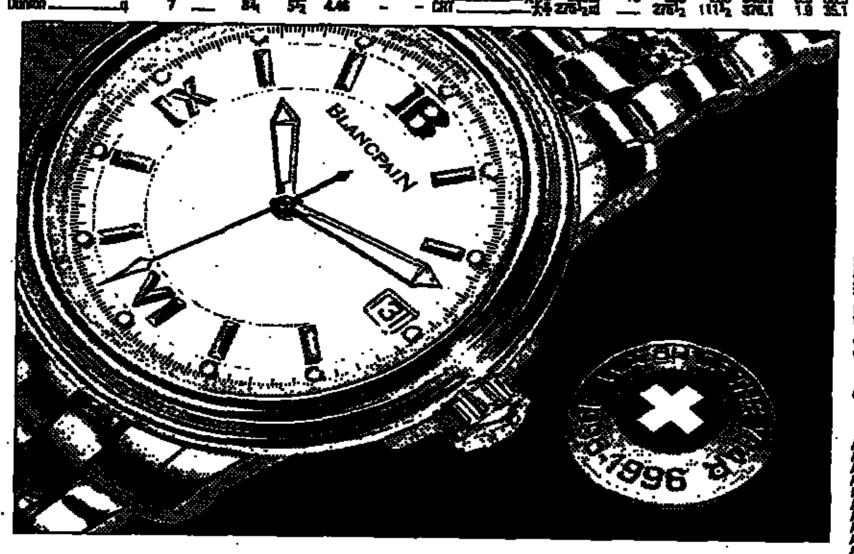
[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]



PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, FOOD - Cont.

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	g	£20½xd	—	*£24¼	£20½	1,844	3.4	Φ
Barlow	Φ	[illegible]	+⅛	[illegible]	[illegible]	1,117	2.5	Φ
Gold Flds Prop R		120½	-¼	170	120	12.8	8.2	10.7
MK Props		82	—	98	60	2.49	13.2	–
SASOL	▼	645	—	718	483	3,777	1.6	–
SA Brews		£15½	+½	£20⅛	£14½	4,827	2.1	Φ
Standard Bank		£21½	-⅛	[illegible]	£21½	2,597	1.6	20.6
Tiger Oats	†	780	—	1270	770	1,788	1.9	18.0
Tongaat-Hulett		703xd	-2	1247	676¼	686.4	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on present year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a
FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.
Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Takeover speculation boosts equity market

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

Although comprehensively outshone by the scintillating global stockmarket debut of Deutsche Telekom, London's equity market built modestly on last Friday's excellent showing.

A well received public sector debt repayment for October – the biggest monthly repayment on record – gave a big boost to gilts which, in turn, helped equities recapture initial gains.

Sentiment in the market has been dented over recent sessions by a succession of worrying economic data, implying intensifying inflationary pressures.

A host of takeover stories, some more believable than others, kept the turnover figure ticking over, although as always on a Monday, volumes left much to be desired.

The one ingredient missing for London was a firm performance from Wall Street. The latter, which has posted eight consecutive upside performances to take the Dow Jones Industrial Average through the 6,300 level late last week with no trouble at all, was no better than mixed at the outset and dropped back to post a 14-point fall shortly after the opening. Well after London closed the Dow was trading 10 points lower at 6,337.

The FTSE 100 eventually closed the session a net 3.9 higher at 3,962.1.

Nevertheless, *the good news was confined to the leaders.* The FTSE 250 was left nursing a 9.7 loss at 4,400.2 while the FTSE SmallCap index dipped 1.9 points to 2,163.5.

The market made a bright enough start to the session, bolstered by Friday's 35-point jump by the Dow and the good news on the public sector debt repayment of £4.4bn, way ahead of a consensus repayment figures of around £2bn.

The numbers were accompanied by a statement from the chancellor of the exchequer that he was confident of hitting the £27bn PSBR target for the financial year.

There was no doubting *the day's biggest individual story affecting the market,* the rumoured merger of Shell and British Gas.

Although speculation of a bid for Gas from either Shell or BP has been circulating in the market since the start of the year, the story was given the big treatment by one of the Sunday newspapers and saw Gas shares race ahead.

They jumped over 9 per cent to their best level since May, just prior to the Ofgas proposals on gas transmission prices.

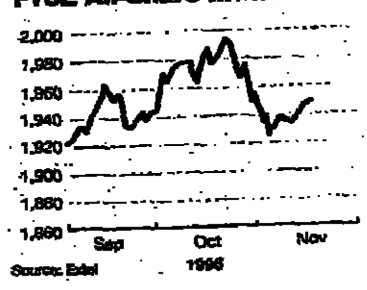
Energy specialists remained sceptical of a full-scale merger of Shell and Gas but refused to rule out some sort of deal in the offing, possibly regarding the "take or pay" gas contracts.

Bid speculation was also rife in the utilities and especially in the recs where London Electricity and Yorkshire Electricity were chased higher.

Turnover at 6pm was 707.2m shares; Gas alone accounted for over 10 per cent of FTSE 100 turnover and almost 5 per cent of the overall total.

Customer business on Friday was worth £1.22bn.

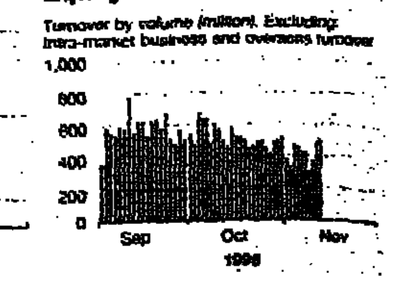
FTSE All-Share Index



Source: Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	3962.1	+3.9	FT 30	2777.7	+1.9
FTSE 250	4400.2	−9.7	FTSE Non-Fins p/e	17.81	17.79
FTSE 350	1973.9	+0.6	FTSE 100 Fut Dec	3960.0	−13.0
FTSE All-Share	1948.57	+0.42	10 yr Gilt yield	7.50	7.55
FTSE All-Share yield	3.84	3.84	Long gilt/equity yld ratio	2.03	2.04

Best performing sectors

1 Gas Distribution ....+8.9
2 Tobacco ....+2.0
3 Electricity ....+1.2
4 Utilities ....+1.1
5 Water ....+1.0

Worst performing sectors

1 Textiles & Apparel ....−2.2
2 Engineering: Vehicles ....−0.9
3 Engineering ....−0.8
4 Retailers: General ....−0.7
5 Electronic & Elec ....−0.6

More gas takeover talk

By Peter John, Lisa Wood and Joel Kibazo

British Gas dominated the market in volume and price movement yesterday as traders responded to the prospect of an aggressive move from Shell Transport.

The performance of both stocks was fuelled by the refusal of either company to make any comment on the speculation. Gas shares jumped 19¼ to 228¾p on turnover of 34m. Shell lifted 10½ to 996½p while BP was dragged up 5 to 675p in the enthusiasm. The three stocks accounted for 8.5 Footsie points.

Most analysts were sceptical about the Sunday newspaper reports.

The story focused attention on two things; the fundamental valuation and the possibility that the rumour masked some negotiations on onerous Take or Pay contracts.

In terms of valuation, strategists argue that the shares were trading well below a justifiable range of between 230p and 265p. NatWest summed up the feeling of many other brokers. Analyst Mr Adam Forsyth said: "There may be something happening on Gas or there may not but we have been pointing out to people that there is value in the stock."

There was some suggestion that Shell, which sells gas to TransCo, BG's pipeline business, at above the market rate might have been discussing renegotiation of the contracts in return for a one-off settlement.

Thorn hit

Thorn took the wooden spoon in the FTSE 250, falling 34 to 313½p after the first interim results since its demerger from Thorn EMI in August.

Despite results in line with expectations analysts were alarmed by news of competitive trading conditions, delays in achieving full operational efficiencies in the UK and continuing litigation in the US. *A number of forecasts were trimmed.* ABN-AMRO Hoare Govett reduced its estimate for the year to March 1997 from £190m to £186m.

Some analysts said however they felt there had been an over-reaction. Ms Victoria Melendez of Morgan Stanley said that the stock was a complex one because of its geographical spread in a number of different businesses.

She said part of the price of doing business in the US was the risk of litigation.

Takeover speculation continued to affect House of Fraser which rose 5½ to 157p.

CU downgrade

Commercial Union came under pressure as Credit Lyonnais took the stock off the buy list.

The broker has been cautious *on the sector for some time* but always felt that CU was the one ray of hope among the composites. However, as a result of the strength on sterling and consequent effect on CU's overseas earnings, Laing has turned 'holder' on the stock and cut back its forecasts.

The broker has reduced its current year profit forecast by £24m to £446m and earnings per share estimate from 46.4p to 41.9p. It has lowered its 1997 profit figure by a similar amount to £420m. The shares were restrained at 643½p.

Shipbuilder Vosper Thornycroft was cheered by the weekend signing of a lucrative defence agreement between the UK and Qatar.

The two countries signed a memorandum of understanding which included the provision of two 46-metre patrol craft which are produced by Vosper. The shares jumped 41 to 876p.

Several other UK companies are also to provide equipment under the agreement. They include GKN and British Aerospace. The former eased 16 to 1066½p, with concerns over the poor outlook for the European automotive sector and currency worries continuing to overhang the stock.

BAe had a volatile session. The shares fell back sharply early in the day on disappointment that a consortium which includes BAe had been eliminated from competition to build a new generation of fighter aircraft for the US and UK.

That disappointment outweighed the favourable news from Qatar. However, sentiment improved later in the session. The shares clawed back most of the day's earlier falls to end just ½ lighter at 1143p, after trade of 2.9m.

Shares in engineering company BBA Group eased 3 to 351½p, with the group cited as a possible bidder for materials company Cookson Group. Cookson shares eased 10 to 226½p.

Barclays Bank rose 3½ to 965½p ahead of a presentation to investors hosted by Kleinwort Benson.

Yorkshire Electricity gained 11 to 756½p on persistent takeover talk in the wake of the two US bids for Northern and East Midlands. However, Northern slid 12½ to 596½p as it published its defence against CalEnergy, and the US group *responded by citing* "the company's own stockbroker's 'base case' valuation of 484p prepared just last month".

Vanguard Medica jumped 55 to 565p on the announcement of 'encouraging' results from phase IIb clinical trials on its anti-migraine treatment.

Jefferson Smurfit, the paper and packaging group, added 2¼ at 185¼p following a recommendation from Salomon Brothers.

BAT Industries rose 9 to 436p on newspaper comment arguing that it was "hard to justify" their underperformance against Philip Morris of the US, as BAT had ringfenced the potential damage from anti-tobacco litigation in the US.

Shares in Toad, the vehicle security systems firm, jumped 7½ to 87½p, after the company said it had won two contracts, one with PHH, the contract hire and leasing company and the other with Ford Motor, in the UK.

Among property stocks, Brixton Estates put on 3 to 184½p, with Sutherlands, the Edinburgh-based institutional broker, said to have been recommending the stock.

Provend Group, a vending machine company, made a confident debut as the shares closed at 132½p, having been placed at 125p.

Bass strengthened 7 to 790p with the market anticipating clearance by the Department of Trade and Industry of its proposed acquisition of the majority of Carlsberg-Tetley.

Tesco added 3½ to 332½ and J Sainsbury hardened 2½ to 364p with HSBC James Capel said to have changed its recommendation on Sainsbury from "sell" to "hold" and *lifted its sector recommendation* from "under-weight" to "in line."

FT 30 INDEX

	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12	Yr ago	*High	*Low
FT 30	2777.7	2775.8	2781.0	2765.5	2775.3	2647.5	2885.2	2666.8
Ord. div. yield	4.12	4.11	4.13	4.08	4.10	4.05	4.22	3.76
P/E ratio net	16.76	16.78	16.70	16.91	16.81	15.85	17.46	15.80
P/E ratio nil	16.60	16.62	16.54	16.75	16.65	15.69	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2776.9	2774.6	2768.9	2767.2	2770.7	2772.6	2775.0	2774.3	2775.8	2780.5	2763.6

	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12	Yr ago
SEAQ bargains	40,044	37,957	34,250	33,665	34,544	34,277
Equity turnover (£m)†	-	1222.8	1324.8	1124.5	1019.8	1671.8
Equity bargains†	-	26,388	23,698	22,812	22,567	40,853
Shares traded (mil)†	-	449.6	504.6	493.8	371.5	621.0

†Excluding intra-market business and overseas turnover.

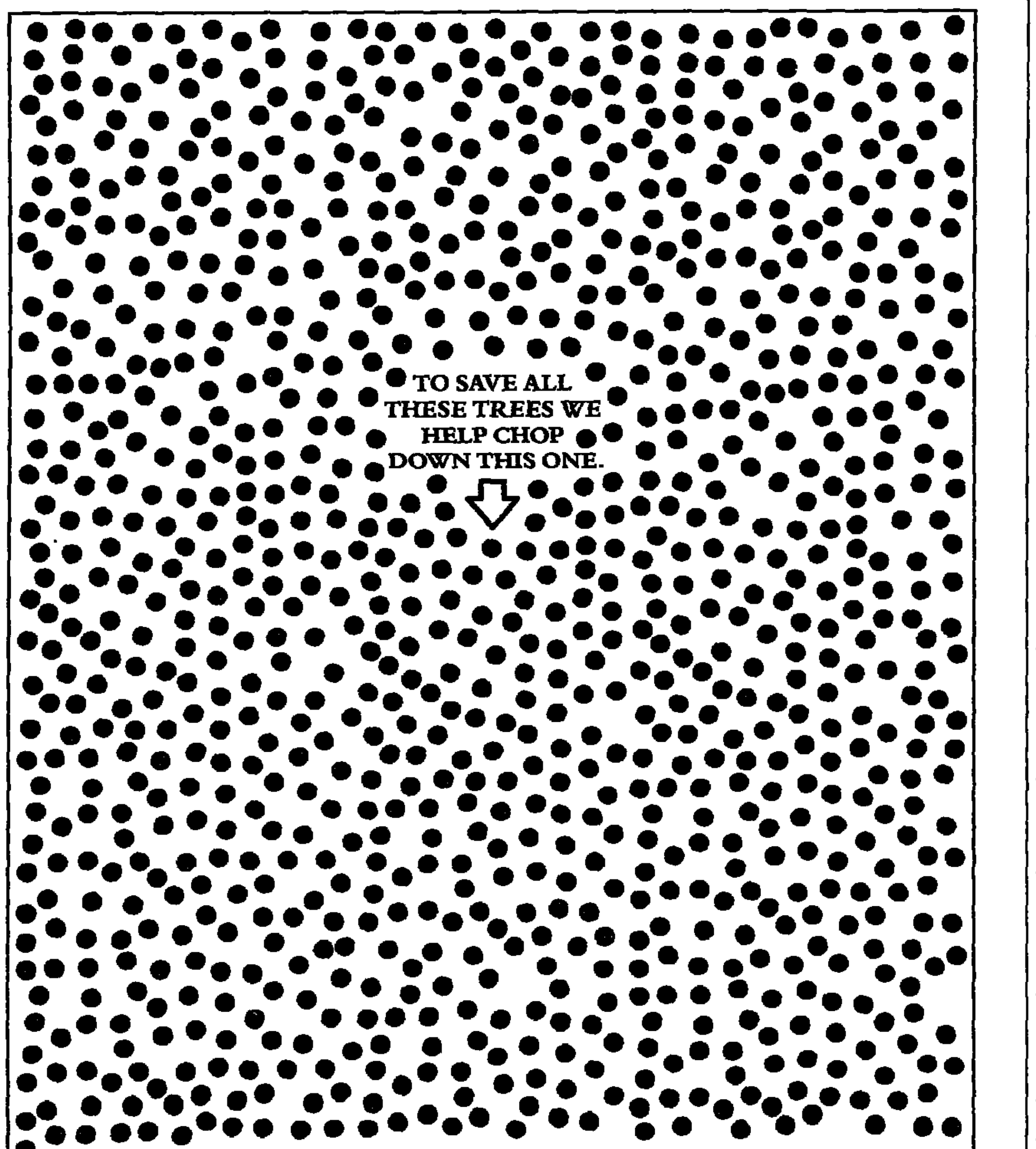
	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12	Yr ago	*High	*Low
FTSE AIM	1030.00	1029.30	1028.00	1025.60	1024.20	-	1140.40	985.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	526	Total Highs	76	Total contracts	59,048
Total Falls	619	Total Lows	104	Calls	40,138
Same	1,447			Puts	18,910

Nov 18 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3984.0	3970.0	-12.0	3988.0	3965.0	10414	56869
Mar	3987.5	3988.0	-10.0	3990.5	3987.5	1370	3803
Jun	-	4004.0	-10.0	-	-	0	1783

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4434.0	+8.0	-	-	0	4191
Mar	4462.0	4470.0	+8.0	4478.0	4462.0	1340	0

■ FTSE 100 INDEX OPTION (LIFFE) (*3962) £10 per full index point

	3800		3850		3900		3950		4000		4050		4100		4150	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Mar	[illegible]															
Jun†	[illegible]															

Calls 17,128 Puts 5,482

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3775		3825		3875		3925		3975		4025		4075		4125	
Dec	204	10½	158½	15	118	23½	81	36½	50½	[illegible]						
Jan	226½	20½	184	28	145	39	109	53	78	[illegible]						
Feb	253½	33½	212½	42½	174	54	139	69	108½	[illegible]						
Mar	255	46½	217½	58	182	71	149½	87½	119½	[illegible]						
Jun†			271	98			207	131		[illegible]						

Calls 15,826 Puts 5,454 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§6	F.P.	10.8	7	7	†Barrasford	7		-	-	-	-
3	F.P.	8.15	4¼	4	†Beaufort	4¼	+¼	-	-	-	48.6
§3	F.P.	7.55	4¼	4	†Beechcroft	4		-	-	-	13.2
§157	F.P.	37.7	177½	172½	Brands Hatch	172½		W3.5	1.9	2.5	17.4
§130	F.P.	37.5	162½	130	Brit Aircraft	159½		L1.6	3.0	1.3	28.2
§135	F.P.	48.5	166½	152½	Charles Taylor	166½	+1½	L4.2	0.3	3.2	52.9
3	F.P.	7.41	4¾	4	†Corp Exec Search	4¾		-	-	-	-
	F.P.	10.2	164½	155½	†Deep Sea Leisure	162½		-	-	-	-
§	F.P.	32.3	610	600	First Russian C	610		-	-	-	-
100	F.P.	96.0	113½	81½	†Geo Inter Med	96		-	-	-	-
§100	F.P.	24.9	99½	99	Hlthcare Reform	99½		-	-	-	-
	F.P.	10.8	132½	122½	†Jardinerie Ints	122½		-	-	-	-
§285	F.P.	138.8	310	292½	John D Sports	298½	-1½	L4.3	2.5	1.8	28.1
§175	F.P.	177.5	182½	174½	Limelight	177½	-5	bW4.7	2.1	3.3	18.4
72	F.P.	25.9	79½	67½	†Loftus Road	70	+½	-	-	-	-
§	F.P.	26.8	222½	187½	†Majestic Wines	210½	-3½	-	-	-	12.3
§10	F.P.	4.23	12¼	11¼	†Mears Group	11¼		K0.2	-	2.1	-
75	F.P.	5.45	93½	82½	†Mondas	90½		-	-	-	-
§125	F.P.	22.9	135½	124½	Provend	132½		RW3.6	2.4	3.4	13.5
§154	F.P.	22.1	245½	187½	Oriental Rest	231½		-	-	-	26.2
§	F.P.	33.2	137½	130½	Scot Highland Ht	136½		R3.0	2.4	2.7	13.6

† Alternative Investment Market. § Placing price. * Introduction For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 15	% chg on day	Nov 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1969.83	−0.5	1979.63	1831.02	1.53	–	2520.73	1831.02
■ Regional Indices								
Africa (13)	2475.94	−1.1	2502.51	2451.56	3.12	35.99	3553.86	2332.70
Australasia (6)	2168.67	−0.5	2178.38	2247.59	2.58	21.64	2927.34	2005.75
North America (12)	1801.87	−0.3	1807.75	1596.25	0.72	68.17	2186.39	1596.25

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 18	Day's chge%	Nov 15	Nov 14	Nov 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	3962.1	+0.1	3958.2	3926.1	3926.9	3628.8	3.99	2.04	15.38	159.91	1651.87
FTSE 250	4400.2	−0.2	4409.9	4396.9	4410.2	3966.8	3.55	1.49	23.54	162.62	1785.71
FTSE 250 ex IT	4440.5	−0.2	4451.2	4439.5	4450.8	3990.5	3.66	1.52	22.57	170.88	1816.20
FTSE 350	1973.9	——	1973.3	1959.7	1961.2	1801.8	3.89	1.99	16.62	78.27	1681.06
FTSE 350 Higher Yield	1883.1	+0.2	1879.6	1867.9	1866.6	1798.0	5.19	1.81	13.30	98.24	1350.59
FTSE 350 Lower Yield	2072.0	−0.1	2074.3	2058.7	2062.8	1810.2	2.73	2.14	21.41	58.84	1452.71
FTSE SmallCap	2163.53	−0.1	2165.37	2162.74	2161.57	1953.73	3.15	1.59	24.88	63.41	1801.42
FTSE SmallCap ex IT	2167.72	−0.1	2169.26	2166.24	2164.17	1937.88	3.35	1.66	22.40	67.18	1817.96
FTSE All-Share	1948.57	......	1948.15	1935.55	1936.77	1776.97	3.84	1.91	17.04	75.74	1684.64

■ **FTSE Actuaries Industry Sectors**

	Nov 18	Day's chge%	Nov 15	Nov 14	Nov 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3828.37	+0.7	3801.25	3749.11	3751.47	3045.26	3.73	1.71	19.85	142.73	1678.03
12 Extractive Industries(6)	3987.91	−0.2	3996.81	3958.47	3996.52	4174.79	4.07	2.68	11.55	162.00	1188.59
15 Oil, Integrated(3)	3986.13	+0.9	3951.80	3888.14	3885.33	3062.47	3.87	1.55	20.81	154.36	1795.31
16 Oil Exploration & Prod(14)	2816.43	+0.6	2799.92	2805.85	2805.84	1912.17	1.87	1.70	39.25	52.93	1707.11
20 GEN INDUSTRIALS(275)	1978.54	−0.6	1989.69	1986.97	1998.57	1965.85	4.32	1.68	17.27	76.31	1103.26
21 Building & Construction(34)	1179.02	−0.4	1183.55	1182.12	1185.64	994.17	3.59	1.46	23.81	39.71	1004.79
22 Building Matls & Merchs(29)	1821.59	−0.4	1829.41	1829.98	1838.46	1797.61	4.24	1.40	21.01	74.81	939.86
23 Chemicals(25)	2355.45	−0.3	2363.10	2364.99	2383.31	2386.81	4.31	1.45	19.96	86.14	1135.42
24 Diversified Industrials(19)	1394.43	−0.4	1399.75	1395.17	1399.96	1785.12	7.27	1.61	10.72	89.84	804.17
25 Electronic & Elect Equip(36)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(14)	[illegible]										
28 Paper, Pckg & Printing(26)	[illegible]										
29 Textiles & Apparel(19)	[illegible]										
30 CONSUMER GOODS(82)	[illegible]										
32 Alcoholic Beverages(6)	[illegible]										
33 Food Producers(26)	[illegible]										
34 Household Goods(15)	[illegible]										
36 Health Care(18)	[illegible]										
37 Pharmaceuticals(14)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(252)	[illegible]										
41 Distributors(32)	[illegible]										
42 Leisure & Hotels(25)	[illegible]										
43 Media(43)	[illegible]										
44 Retailers, Food(14)	[illegible]										
45 Retailers, General(45)	[illegible]										
47 Breweries, Pubs & Rest.(21)	[illegible]										
48 Support Services(50)	[illegible]										
49 Transport(23)	[illegible]										
60 UTILITIES(33)	[illegible]										
62 Electricity(12)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(9)	[illegible]										
68 Water(11)	[illegible]										
69 NON-FINANCIALS(665)	[illegible]										
70 FINANCIALS(103)	[illegible]										
71 Banks, Retail(9)	[illegible]										
72 Banks, Merchant(6)	[illegible]										
73 Insurance(21)	[illegible]										
74 Life Assurance(7)	[illegible]										
77 Other Financial(23)	[illegible]										
79 Property(41)	[illegible]										
80 INVESTMENT TRUSTS(128)	[illegible]										
89 FTSE All-Share(895)	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										

■ **Hourly movements**

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										

Time of FTSE 100 Day's high: 4:02 PM Day's low: 10:11 AM. [illegible]

■ **FTSE 350 Industry baskets**

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. DELETION: Conrad (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ **Major Stocks Yesterday**

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are included. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

TORONTO (Nov 18 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $.

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INDICES

	Nov 18	Nov 15	Nov 14	1996 High		1996 Low	
Argentina							
General(29/12/77)	(c)	17483.26	17493.89	19891.95	20/5	18297.26	22/8
Australia							
All Ordinaries(1/1/80)	2383.8	2387.3	2362.5	2387.30	15/11	2098.10	17/7
All Mining(1/1/80)	951.5	954.6	946.4	1118.40	8/5	921.30	12/11
Austria							
Credit Aktien(30/12/84)	368.42	368.79	369.25	394.80	31/5	349.19	6/9
Traded Index(2/1/91)	1084.45	1087.55	1084.90	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1872.17	1869.48	1855.41	1872.17	18/11	1574.99	2/1
Brazil							
Bovespa(29/12/83)	(c)	(c)	65230.0	67968.09	21/10	43901.89	2/1
Canada							
Metals Mnls♦(1975)	(c)	5487.33	5393.40	5824.80	8/5	4867.47	16/1
Composite♦(1975)	(c)	5870.60	5820.90	5870.60	15/11	4738.79	15/1
Portfolio§§(4/1/83)	(u)	2918.75	2898.69	2916.75	15/11	2327.38	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5202.35	5246.80	5804.33	8/1	5202.35	15/11
Denmark							
CopenhagenSE(3/1/83)	449.72	451.48	449.31	454.29	21/10	368.40	2/1
Finland							
HEX General(28/12/90)	2369.94	2367.50	2338.39	2369.94	18/11	1851.67	10/1
France							
SBF 250(31/12/90)	1496.72	1502.55	1491.05	1502.55	15/11	1260.16	2/1
CAC 40(31/12/87)	2228.61	2240.33	2218.18	2240.33	15/11	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	964.46	969.65	964.90	969.65	15/11	818.56	2/1
Commerzbank(1/12/53)	2816.0	2829.70	2814.2	2829.70	15/11	2376.18	2/1
DAX‡(30/12/87)	2763.84	2795.80	2777.01	2795.80	15/11	2284.98	2/1
Greece							
Athens SE(31/12/80)	914.82	890.39	878.38	1017.96	4/3	822.99	7/8
Hong Kong							
Hang Seng(31/7/64)	13042.8	12889.3	13004.8	13042.80	18/11	10204.87	2/1
India							
BSE Sens.(1979)	3171.59	3139.02†	3110.23	4069.26	18/6	2828.88	25/1
Indonesia							
Jakarta Comp.(10/8/82)	620.86	616.59	600.91	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2649.70	2659.36	2652.75	2700.04	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	648.78	650.54	644.33	674.19	20/5	572.21	27/8
MIB General(2/1/95)	1101.0	1104.0	1093.0	1142.00	20/5	990.00	27/8
Japan							
Nikkei 225(16/5/49)	20796.37	20928.73	21031.04	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	292.25	293.86	294.04	318.70	26/6	284.48	11/3
Topix(4/1/68)	1556.33	1554.74	1569.85	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2013.54	2019.26	2026.43	2281.48	2/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1194.40	1192.16	1189.43	1194.40	18/11	966.18	2/1
Mexico							
IPC(Nov 1978)	(c)	3385.13	3392.22	3433.76	27/8	2736.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	708.3	702.3	696.9	708.30	18/11	589.50	2/1
CBS All Shr(End 83)	414.6	412.5	409.3	414.60	18/11	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2352.36	2351.94	2344.17	2367.78	21/10	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1537.95	1531.42	1514.61	1537.95	18/11	1259.88	30/1
Philippines							
Manila Comp(2/1/85)	3105.55	3072.79†	3072.81	3374.40	5/7	2578.67	2/1
Portugal							
BVL 30(4/1/93)	2082.34	2080.77	2065.0	2082.34	18/11	1662.81	2/1
Singapore							
SES All-S'pore(2/4/75)	534.65	538.11	536.50	610.37	5/2	509.78	21/10
South Africa							
JSE Gold(28/9/78)	1711.4♥	1720.9	1743.6	2030.40	29/5	1348.40	2/1
JSE Ind.(28/9/78)	8135.6♥	8048.3	7980.2	8738.30	25/1	7592.40	21/8
South Korea							
KoreaCmpEx**(4/1/80)	750.82	750.29	743.03	986.84	7/5	729.53	11/11
Spain							
Madrid SE(30/12/85)	389.17	389.72	388.84	389.84	14/11	323.75	11/1
Sweden							
AffarsvardsGen(1/2/37)	2248.9	2251.4	2222.8	2251.40	15/11	1708.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1835.30	1840.85	1824.76	1840.85	15/11	1616.19	17/1
SBC General(1/4/87)	1306.76	1308.67	1296.07	1308.67	15/11	1114.47	28/1
Taiwan							
WeightedPr.**(30/6/66)	6659.72	6587.44	6601.63	6659.72	18/11	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	942.34	1000.73	990.62	1415.04	6/2	905.94	15/10
Turkey							
Istanbul Comp.(Jan 1986)	83172.8	82541.6	81441.3	84892.20	11/11	38779.39	2/1
WORLD							
MS Capital Int$(1/1/70)	821.8*	828.4	820.7	828.40	15/11	725.98	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1827.08	1826.08	1811.76	1827.98	18/11	1584.40	11/1
Euro Top-100(26/6/90)	1534.29	1537.45	1528.17	1537.45	15/11	1333.01	11/1
HSBC JC Dgn(31/12/88)	(u)	404.09	404.51	404.51	14/11	344.19	2/1
ING Bngs Emrg(7/1/92)	159.48	159.59	158.70	165.91	4/7	147.36	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Nov	2238.0	2231.0	+5.0	241.05	2228.0	8,562	22,344
Dec	2242.0	2236.0	+5.0	2243.5	2234.5	406	19,414
DAX							
Dec	2801.5	2778.5	-31.0	2808.0	2776.0	20,432	91,499
Mar	2821.5	2799.0	-31.0	2825.5	2796.0	169	9,962
OMX							
Nov	1753.25	1755.50	-4.50	1759.00	1752.25	1,080	23,337
Dec	1782.75	1768.75	-6.25	1767.25	1761.50	522	11,703
SOFFEX							
Dec	3893.0	3885.0	-23.0	3907.0	3885.0	3,458	20,550

** Sat Nov 16: Taiwan Weighted Price 6668.10; Korea Comp Ex 756.67. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 18 – 2768.90 -31.70.

US INDICES

Dow Jones	Nov 15	Nov 14	Nov 13	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6348.03	6313.00	6274.24	6348.03 (15/11)	5032.94 (10/1)	6348.03 (15/11/96)	41.22 (8/7/32)
Home Bonds	103.61	103.84	103.77	106.89 (14/2)	100.89 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2221.45	2228.82	2216.85	2286.20 (22/5)	1882.71 (18/1)	2286.20 (22/5/96)	13.23 (8/7/32)
Utilities	234.91	233.16	232.88	235.88 (7/11)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6414.37 (6350.64) Low 6277.22 (6232.50) (Theoretical♣)
Day's high †6377.86(6314.12) Low †6312.62(6264.11) (Actual♣)

Standard and Poors	Nov 15	Nov 14	Nov 13	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	737.62	735.88	731.14	737.62 (15/11)	598.48 (10/1)	737.62 (15/11/96)	4.40 (1/6/32)
Industrials♥	866.67	864.69	859.52	866.67 (15/11)	702.07 (15/1)	866.67 (15/11/96)	3.52 (30/6/32)
Financial	80.73	80.44	79.58	80.73 (15/11)	58.67 (10/1)	80.73 (15/11/96)	7.13 (4/8/74)
NYSE Comp.	390.02	389.01	386.91	390.02 (15/11)	321.41 (10/1)	390.02 (15/11/96)	4.64 (25/4/42)
Amex Mkt Val	585.41	585.36	584.31	614.99 (22/5)	525.60 (18/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1281.80	1270.36	1260.72	1270.36 (14/11)	988.57 (15/1)	1270.36 (14/11/96)	54.87 (3/10/74)

RATIOS

	Nov 15	Nov 8	Nov 1	Year ago
Dow Jones Ind. Div. Yield	2.06	2.09	2.15	2.35
	Nov 13	Nov 6	Oct 30	Year ago
S & P Ind. Div. yield	1.87	1.89	1.95	2.03
S & P Ind. P/E ratio	22.64	23.58	22.80	18.37

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
US West Md	8,009,100	18⅝	+⅛
IBM	7,789,700	145	+8⅝
Hewlett-Pk	7,284,200	50⅝	+1⅝
Wal-Mart	6,824,300	24⅛	-⅛
Bay Netwk	6,130,600	24	+⅜
AT & T	4,911,700	37⅛	-⅛
Digital Eq	4,791,300	34¾	+1⅞
Westinghs	4,684,200	18¾	-⅜
Vimpel Cm	4,351,400	29	+6½
Loral Sp	4,234,100	18⅛	+⅛

TRADING ACTIVITY

● Volume (million)	Nov 15	Nov 14	Nov 13
New York SE	526.623	478.546	429.811
Amex	24.162	22.817	22.315
NASDAQ	630.457	618.485	593.876
NYSE			
Issues Traded	3,303	3,309	3,288
Rises	1,264	1,471	1,295
Falls	1,181	977	1,119
Unchanged	858	861	874
New Highs	280	200	168
New Lows	25	21	20

S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	740.25	741.85	+1.00	742.30	740.10	71,278	193,451
Mar	–	747.50	–	–	–	942	8,534

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	20970.0	20800.0	-170.0	21000.0	20780.0	18,223	215,159
Mar	21010.0	20800.0	-180.0	21040.0	20800.0	4,718	21,306

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telerate) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Monday, November 18, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	4.9m	342	-4
Toyota Motor	4.2m	2870	+20
Green Cross Cp	3.4m	586	+16
Hitachi	3.4m	1020	+10
Mazda Motor	2.9m	476	-29
Sanyo Electric	2.6m	540	-11
Nissan Motor	2.5m	776	-29
NEC Corp	2.2m	1320	
Honda Motor	2.1m	2870	+40
Kawasaki Steel	1.8m	349	-3

NEW YORK STOCK EXCHANGE PRICES

4 pm close November 18

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
31¼	17¾	AAR	0.48	1.8	24	90	27⅝	27	27	-½
48⅛	33	AMP	1.00	2.9	17	13163	35⅝	34⅞	34⅞	-⅛
97½	66	AMR			17	7166	89½	86¼	88½	+3¼
50½	37⅜	ASA x	1.40	3.6	25	533	39½	39¼	39¼	-⅜
54⅞	38⅛	AbbtL	0.96	1.8	22	9337	53⅞	52¾	53¼	-¼
17¼	12¼	AbtiBi Pr	0.40	2.6	8	2085	15½	15	15½	+¼
20¼	13½	ABM Ind	0.35	2.0	17	117	17½	17⅜	17⅜	-⅛
22½	13⅞	Acpincela			9	131	20⅜	20	20	-⅝
59⅝	37¾	ACE Ltd	0.58	0.9	14	314	u59⅝	58½	59¼	+⅝
10⅜	9⅛	ACM Gvt In x	0.90	8.9	8	113	10¼	10⅛	10⅛	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	7.9		375	7½	7⅛	7¼	
9¾	8⅜	ACM Man x	0.90	9.4		364	9⅝	9½	9⅝	+⅛
13⅞	6⅛	Acme Elect	0.32	4.3	56	71	7½	7⅛	7⅜	+⅛
19	13⅞	Acme Mls			13	52	18⅞	18⅝	18⅞	+⅛
33¾	27¾	Acordia	0.72	2.5	14	47	29⅜	29	29¼	+¼
24¾	12	Acuson			112	1055	24½	23½	23⅝	-1
21	17⅞	Adams Expr	0.55	2.6	1	142	u21	20⅞	21	
25¾	10¼	AdvMic			25	15511	25½	24⅝	24⅞	-¼
11⅛	8½	Advest Grp	0.16	1.6	7	224	9¾	9¾	9¾	
28⅛	9⅛	Advo Inc	0.10	0.8	97	2085	13	12⅝	12⅝	-¼
55⅝	41⅛	Aegon	1.45	2.6	17	47	56¼	55¾	56¼	+¾
8⅞	3½	Aerflx			3	104	4⅝	4½	4⅝	
70⅞	57⅝	Aetna	0.80	1.2	8	2168	69⅝	69	69⅛	-¼
44	28¼	Aflac x	0.40	0.9	17	1381	42⅜	41¾	42¼	+⅝
22	17⅛	AGL Res x			15	253	21½	21¼	21⅜	+⅛
32⅛	21¼	Ahmnsn x	0.88	2.8	56	2012	31⅞	31½	31⅝	+¼
69⅜	50⅜	AirPrC	1.10	1.6	18	2145	68¼	67⅞	68	-¼
28⅜	19½	Airbne Frt x	0.30	1.4	15	365	21⅜	21	21¼	
26⅛	15½	Airgas Inc			40	1987	u26⅛	25⅜	25⅞	+¼
18⅞	13¼	Airlease	1.80	11.6	10	43	15⅝	15½	15½	-⅛
33⅝	25	AirTch			73	7373	26¾	26⅛	26⅜	-⅛
30¾	15⅞	Alaska Air	0.20	0.9	7	1282	23⅝	23	23½	+⅝

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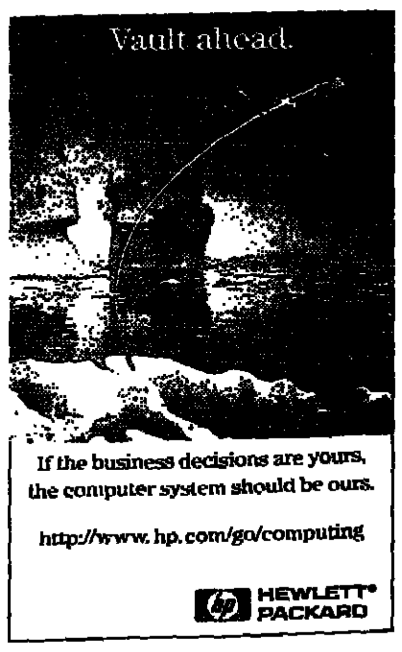

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NYSE PRICES

4 pm close November 18

Continued from previous page

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Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close November 18

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NASDAQ NATIONAL MARKET

4 pm close November 18

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Weak tech stocks pull Dow back

AMERICAS

US shares edged lower at midsession as the bond market weakened and technology shares fell victim to some profit-taking, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was off 11.55 at 6,336.48, on course to end its eight day streak of record setting sessions. That was four short of the 12 consecutive record closes made in January of 1987.

The Standard & Poor's 500 was 2.33 weaker at 735.29, and the American Stock Exchange composite lost 1.79 at 583.62. Volume on the NYSE came to 213m shares.

The Nasdaq composite, which is weighted toward the technology sector, shed 9.63 at 1,252.17, while the Pacific Stock Exchange technology index lost 0.9 per cent.

IBM, which soared $8¾ on Friday, gave back a fraction of that gain as it slipped $⅞ at $144⅝. The four largest companies on the Nasdaq were also lower. Intel slipped $1¼ at $114⅜, Microsoft lost $¾ at $148¾, Cisco Systems fell $1⅛ at $63⅞ and Oracle was $⅞ lower at $46¾.

Merger and acquisitions *activity moved several* shares. Tosco jumped $7⅛ or 11 per cent on news that it planned to buy some of UnoCal's assets, and UnoCal *added $1 at $40¼.*

Tyco Toys surged $4⅕ or 64 per cent to $11⅛ on news that Mattel had agreed to buy the company for $12¼ per share in stock.

Shares in McDonnell Douglas slumped $4⅞ or 8 per cent to $52 after the company was eliminated from a competition to provide new fighter aircraft for the US and the UK.

Shares in Boeing and Lockheed Martin, the two remaining competitors, jumped. Boeing added $2⅞ or 3 per cent at $94⅞ and Lockheed rose $2⅞ or 2 per cent to $95⅞.

Kellogg lost $⅞ at $68 after announcing that it had agreed to buy the Lender's frozen bagels division from Kraft, which is a unit of Philip Morris.

TORONTO had an active morning with the 300 composite index curling off its recent peaks in solid volume. *Rises led falls by a slight* margin, but at noon the index was down 0.20 to 5,870.36.

Gold shares were the main *drag on sentiment, the softer* bullion price pushing the gold mining sector noticeably lower. It was off almost 1 per cent at noon.

Among leading stocks, Alcan dipped 10 cents to C$47.40 and bank shares also eased back after their strong *recent run.* Royal Bank of Canada eased 10 cents to C$46.80 and Toronto-Dominion Bank came off 25 cents to C$34.60.

*Helped by talk of solid pre-*Christmas selling, the drinks group, Seagram, put on 25 cents at C$51.35.

Caracas moves ahead

Expectations of a successful conclusion this week to the global share offering in CANTV, the telephone company, enabled **CARACAS** to *put in a firm showing.* Domestic small investors were reported to have placed orders for $170m of the shares by last Friday's deadline. *Venezuelan* institutional investors have until today, and foreign institutions until Thursday, to place orders. The IBC index *was 50.33 higher at 6,017.08.*

MEXICO CITY was weak on profit-taking, although Televisa picked up 1.1 pesos to 115.80 pesos on news that *the company had agreed a* $350m loan to refinance 3.4bn pesos of debt held with Banamex. The IPC index dipped 28.25 to 3,356.88 by *midsession as* Lehman Brothers raised its recommendation on Mexico in its Latin American model portfolio, at the expense of Chile.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+1.13	−0.39	+16.66	−11.28	−1.64	+5.56
Belgium	+1.90	+2.44	+23.64	+14.92	+1.38	+8.82
Denmark	+1.15	−0.33	+28.85	+22.63	+9.38	+17.40
Finland	+7.41	+6.48	+16.89	+33.42	+18.97	+27.69
France	+1.21	+2.52	+22.35	+22.52	+9.57	+17.60
Germany	+1.78	+2.27	+26.53	+21.40	+7.33	+15.21
Ireland	−1.12	−0.66	+22.39	+20.03	+16.34	+24.88
Italy	+3.65	+4.16	+12.26	+6.22	+3.50	+11.09
Netherlands	+2.98	+1.25	+34.47	+24.69	+10.12	+18.20
Norway	+2.19	+2.40	+25.78	+20.42	+11.98	+20.19
Spain	−1.46	+3.16	+35.64	+23.86	+10.27	+18.35
Sweden	−4.39	+3.02	+33.56	+31.09	+22.13	+31.09
Switzerland	+2.10	+2.10	+24.37	−17.04	−1.85	+6.34
UK	+1.07	−2.25	+10.68	+7.31	+7.31	+15.18
EUROPE	+1.82	+0.65	+20.05	+19.38	+7.39	+15.26
Australia	+1.25	+1.61	+11.59	+6.89	+5.73	+13.46
Hong Kong	+1.72	+2.96	+34.01	+24.66	+16.42	24.864
Japan	−0.77	−3.09	+11.02	−0.96	-14.33	-8.04
Malaysia	+0.40	+0.67	+34.96	+19.44	+11.96	+20.18
New Zealand	+0.35	−0.93	+5.95	+7.05	+7.73	+15.63
Singapore	+4.65	+8.05	+12.49	+0.20	−5.60	+1.32
Canada	+1.67	+7.35	+31.74	+26.77	+20.34	+29.16
USA	+1.13	+3.65	+23.28	+19.38	+11.22	+19.38
Mexico	+1.26	+1.41	+48.31	+21.01	+9.90	+17.96
South Africa	−0.88	−2.72	+13.23	+9.38	−20.52	−14.69
WORLD INDEX	+0.96	+1.40	+20.17	+13.66	+3.97	+11.38

† Based on November 15th 1996.

Frankfurt turnover marks Telekom debut

EUROPE

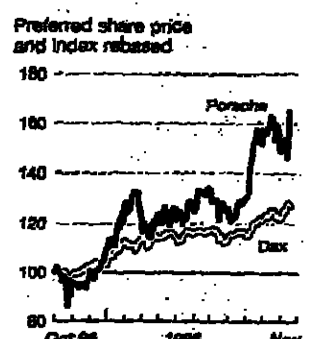
Deutsche Telekom dominated the **FRANKFURT** day, peaking at DM34.20 against an offer price of DM28.50 and trading in well over DM2bn in floor and Ibis trading. German equity turnover, measured to the floor trading close, soared from DM12.6bn to DM24.7bn.

Ibis trading was extended to celebrate Telekom's parallel quotation in New York; after some profit taking, the telecoms giant closed at DM32.68. The broad market, which had built a launch pad for the newcomer with a succession of all-time highs, and a 2.5 per cent gain last week, fell back, the Dax closing 31.70 lower at 2,768.90.

The biggest gain of the day came in Porsche, equally well known in Europe and the US, but a notoriously illiquid stock: the prefs rose DM85, or 8.2 per cent to a new 1996 high of DM1,125 after a buy note from Mr Christopher Will at Lehman Brothers.

Porsche

Preferred share price and index rebased



Source: Datastream

The carmaker, noted Mr Will, had already risen by 33 per cent this year and 20 per cent since August on the launch of the Boxster, a two-seater roadster which sells for 65 to 80 per cent of the price of the classic 911 model. However, he saw more in the coming 911 replacement for the 996 which, he estimated, would cost 15 to 20 per cent less to produce, but which would sell at 911 prices. Mr Will offered a 12 month price target of DM1,500.

Other consumer stocks were less enticing; Karstadt, Germany's biggest department store group, fell DM18.25 or 3.2 per cent to DM553.95 after it warned of an earnings shortfall for the current year.

AMSTERDAM saw the index heavyweight, Royal Dutch, rise Fl6.20 or more than 2 per cent to Fl288.40 after weekend press reports linking the oil major with British Gas of the UK. Less than 1m shares changed hands but the share price gain lifted the AEX index, which closed 1.16 higher at 610.04.

There was buying interest in financials. ABN Amro added Fl 1.70 to Fl 105.40 and Aegon gained 70 cents to Fl 94 after ING Baring moved from hold to buy on the stock.

Nedlloyd was the day's strongest performer, adding Fl 1 to Fl 44.10.

PARIS had a steadier session, winding back gently from Friday's all-time high. At the close the CAC-40 was off 11.62 at 2,228.61.

Euro Disney was strong ahead of today's results statement, advancing 80 centimes to FFr11.45. Broker forecasts for the leisure group's profits ranged up to FFr220m, or double last year's outturn.

The insurance merger candidates, Axa and UAP, continued to head the activity charts with combined volume topping 9m shares. The former dipped FFr4.60 to FFr297 and UAP came off 30 centimes to FFr133.60. Profit-taking also undermined Paribas, which fell FFr7.50 to FFr381.20.

Dolfuss Mieg's warning of a big loss for this year made for another bad day for the textiles group. The shares fell FFr9.20 to FFr120.20 for a two-day decline of 12 per cent.

FTSE Actuaries Share Indices

Nov 18 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1826.10	1823.86	1824.45	1828.90	1828.43	1829.05	1828.53	1827.08
FTSE Eurotrack 200	1866.43	1865.13	1865.90	1868.62	1869.07	1871.39	1870.72	1869.03

THE EUROPEAN SERIES

	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11
FTSE Eurotrack 100	1826.08	1811.76	1799.38	1793.69	1786.58
FTSE Eurotrack 200	1865.31	1852.98	1843.48	1839.82	1826.07

Base value 1000 (26/10/90). High/day: 100 - 1829.36; 200 - 1872.38 Low/day: 100 - 1823.60 200 - 1864.54. † Partial.

ZURICH pulled back in a consolidation of the record highs established at the end of last week and the SMI index finished 9.6 weaker at 3,668.3.

Against the trend, UBS bearers were SFr18 higher at SFr1,275 on switching out of last week's favoured bank stock, *CS Holding.* CS dipped SFr1.50 to SFr134.75 on flat nine-month profits and disappointment that yesterday's statement shed no further light on its planned sale of Elektrowatt, which picked up SFr4 to SFr507.

The Novartis partners, which had hoped to conclude their merger before the end of the year, were under pressure. Ciba lost SFr20 to SFr1,595 and Sandoz fell SFr13 to SFr1,504, but Roche certificates gained SFr30 to SFr9,960 on switching.

Tag Heuer tumbled SFr22 to SFr180 in a belated response to Friday's nine month figures, which failed to live up to some very high expectations.

MILAN was unable to hold on to an early advance, in spite of raised hopes of a cut in interest rates before the end of the year after approval of the 1997 budget by the lower house. The Comit index finished 1.76 weaker at 648.78.

Among the financials, Ina fell L38 to L2,205 after it and the state controlled bank, BNL, said that they had made a bid for a stake in the loss making Banco di Napoli. Ambroveneto rose L96 to L3,496 on the reduced likelihood that it would bid.

Olivetti, up L19.9 to L581, continued to build on the stock price rise seen throughout much of last week.

Fiat gave up another L150 to L4,390 on an earnings downgrade from CS First Boston and *in cautious trade* ahead of nine month figures, due after the market closed.

STOCKHOLM balanced a tumble *in Ericsson against a* 3.6 per cent leap in the banking sector, and the Affärsvärlden General index came out virtually all square, easing 2.5 to 2,248.9.

Ericsson Bs dropped SKr5.50 to SKr200, reversing some of last week's gains when the stock hit an all time high of SKr208.

Banks rose mainly on renewed speculation about S-E-Banken buying the states 58 per cent holding of Nordbanken, which closed SKr9.50 higher at SKr203. S-E-Banken rose SKr3 to SKr62.50 and, as the discussion broadened to include restructuring of the sector, Handelsbanken jumped SKr9 to SKr181.50.

ATHENS rebounded 2.7 per cent in a correction after last week's traumas, which saw the market closed by a settlements scandal early in the week, only to plunge 3.2 per cent when trade resumed last Thursday.

Analysts described yesterday's trade as a flight to quality, with investors opting for liquid, sound blue chips.

The general index jumped 24.43 to 914.82, as banks gained 3 per cent. Industrials jumped 3.1 per cent and constructions added 2.5 per cent.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

Bangkok tumbles 5.8% on election outcome

ASIA PACIFIC

Polls indicating an inconclusive result to Sunday's general election left **BANGKOK** in a tailspin, reversing the advances posted in the four sessions leading up to the poll.

Investors jettisoned shares across the board following a narrow win for the New Aspiration Party which *effectively* put back into power the coalition government ousted earlier this year.

In hectic trading, the SET *index fell 5.8 per cent, sliding* 58.29 to 942.34, and taking the market back to within range of its low for the year at 905.34.

Hopes for a win for the Democrats, seen as having a strong economic team and the political will to bolster Thailand's stalled economy, *had fuelled steady demand* in the run-up to the election.

Finance and bank sectors led the plunge. Krung Thai Bank dropped Bt8 to Bt76.50, *Bangkok Bank fell Bt10 to* Bt144 and National Finance lost Bt6.50 to Bt61.

TOKYO continued its recent slide in the thinnest *session this year, writes Gwen Robinson in Tokyo.*

The Nikkei 225 average fell 133.36 to 20,796.37 after moving between 20,773.31 and 20,940.31. Volume fell from 281m shares to an estimated 170m, its lowest level for the year and its first time below 180m since May 30, 1995.

Analysts said that domestic investors had been turning increasingly to US and other foreign equities and bonds, and that New York's huge gains last week might have accelerated the outflow of funds to overseas markets.

The Topix index of all first-section stocks slipped 8.41 to 1,556.33 and the capital-weighted Nikkei 300 by 1.61 to 292.25. Declines led advances by 729 to 290, with 208 unchanged.

In London, the ISE/Nikkei 50 index rose 1.26 to 1430.97.

While domestic institutions stayed largely on the sidelines, foreign investors continued to show mild buying interest – possibly indicating endorsement of the ambitious package of financial reforms announced last week by the prime minister, Mr Ryutaro Hashimoto, traders noted.

The foreign investors' focus, however, narrowed from last week to centre on carmakers, which recently announced interim earnings. *Honda* advanced Y40 to Y2,870, following last week's sharp rise in first-half operating profits. Toyota, which also reported strong first-half profits, gained Y20 to Y2,870 but Mazda, which had put up a poor first half performance, fell Y29 to Y476.

Nippon Steel, the day's *most active issue, slipped Y4* to Y342. Electrical and high-technology stocks were mixed: Sony climbed Y40 to Y6,990 and Pioneer Electronic Y30 to Y2,360.

In Osaka, the OSE average shed 87.08 to 21,409.04 in volume of 9.94m shares.

TAIPEI closed at a year's high after a positive broker earnings forecast sparked active buying of plastics and textile stocks. The weighted index ended 63.62 higher at 6,659.72.

A leading Japanese bank was said to have turned very bullish on earnings at Formosa Plastics. *The shares* jumped T$1.50 to T$63. Formosa Chemical and Fiber was the most active stock, rising more than 6 per cent to T$38, up T$2.40.

HONG KONG viewed Friday's pullback as a buying opportunity and the Hang Seng index rallied to another record close as optimism about the property sector drove property stocks sharply higher.

The key index rose 153.43 to 13,042.80 after reaching an all-time intraday high at 13,094.42. Turnover edged ahead to HK$8.3bn.

Sun Hung Kai Properties led the sector's gains with a rise of HK$2.75 to HK$93.25, as investors were encouraged by a strong response to *a weekend flats sale.*

SHENZHEN's hard currency B index jumped 5.9 per cent on speculative demand triggered by rumours that the securities regulators were considering measures to boost the market. The index rose 5.39 to 96.56.

SINGAPORE ran into profit-taking after last week's gains and the Straits Times Industrial index gave up 15.61 at 2,178.03.

Analysts attributed much of the activity in the heavily traded Hotel Properties, down 3 cents to S$2.32, to an announcement by Citibank that it had placed a 25m call warrant issue on shares in the property developer.

KUALA LUMPUR was enlivened by activity in *Farlim, a low-cost property construction specialist, on* speculation of a possible takeover or a substantial land acquisition by the company. Farlim jumped M$1.05 to M$6.90 in an otherwise quiet market where the composite index edged 2.24 higher to 1,194.40.

SEOUL was disappointed at a lack of action to spur the economy at a meeting between the president and his economic advisors. The composite index eased 5.65 to 750.82. Brokers said initial public offerings, totalling Won448bn by nine companies, due today and tomorrow added to the weak sentiment.

SYDNEY closed lower after *profit-taking late in the session.* The All Ordinaries index, which reached an all-time high on Friday, ended off 3.6 at 2,383.8.

Coca-Cola Amatil, strong in recent months, suffered a severe shakeout following a broker sell note. The shares ended down A$2.04 at *A$15.60 in 2.07m shares* traded.

S African industrials higher

Johannesburg industrials continued to make rapid upward progress, bowled along by *futures-driven* demand and a number of solid corporate results.

At the close, the overall *index was 72.7 higher at* 6,915.3 following gains of 87.2 to 8,135.6 for industrials. Golds, struggling with a dull bullion price, came off 9.5 to 1,711.4.

Industrials shares pushed ahead on a broad front. Amic rose R7 to R172 and AECI gained R1.75 to R26. *Absa advanced 60 cents to* R23.10 ahead of next Monday's interim results.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 15 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 14 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	215.65	1.0	191.86	151.45	169.10	181.61	1.2	4.21	213.63	190.33	150.32	167.56	179.42	216.14	179.98	179.98
Austria (24)	184.27	0.3	163.94	129.41	144.49	144.43	0.2	1.98	183.80	163.82	129.38	144.22	144.15	195.04	168.36	169.86
Belgium (27)	227.58	0.5	202.48	159.83	178.46	174.43	0.5	3.82	226.38	201.76	159.35	177.62	173.63	227.58	197.59	198.43
Brazil (28)	179.16	0.1	159.40	125.82	140.49	339.57	0.0	1.80	179.04	159.58	126.03	140.48	339.57	189.70	124.63	124.63
Canada (116)	191.73	0.5	170.58	134.65	150.34	185.84	0.8	1.94	190.78	170.05	134.30	149.70	184.33	191.73	143.76	143.76
Denmark (30)	339.02	0.4	301.62	238.06	265.84	266.92	0.2	1.73	337.78	301.07	237.78	265.04	266.31	339.02	276.69	279.92
Finland (24)	238.87	1.7	212.52	167.75	187.31	227.45	1.6	2.21	234.89	209.37	165.35	184.31	223.87	238.87	171.73	221.26
France (93)	210.99	0.9	187.71	148.17	165.44	168.63	0.8	2.90	209.16	186.43	147.24	164.12	167.34	211.40	167.70	181.40
Germany (58)	188.59	0.7	167.78	132.44	147.88	147.88	0.7	1.70	187.21	166.86	131.78	146.89	146.89	188.59	159.60	160.30
Hong Kong (59)	483.30	-0.6	429.99	339.41	378.98	479.77	-0.6	3.22	486.15	433.31	342.22	381.46	482.59	486.15	354.67	360.56
Indonesia (27)	224.64	3.4	199.86	157.76	176.15	321.99	3.4	1.59	217.34	193.72	153.00	170.54	311.46	-	-	-
Ireland (16)	319.07	0.5	283.87	224.07	250.19	269.61	0.2	3.39	317.39	282.89	223.42	249.04	268.95	319.32	249.80	250.86
Italy (58)	81 87	0.0	72.84	57.49	64.20	92.76	-0.1	2.24	81.90	73.00	57.65	64.26	92.82	84.53	67.22	69.52
Japan (480)	142.47	-0.1	126.75	100.05	111.72	100.05	-0.3	0.77	142.58	127.09	100.37	111.88	100.37	164.68	137.62	141.11
Malaysia (107)	583.01	0.1	518.70	409.43	457.16	566.59	0.0	1.10	582.38	519.09	409.97	456.97	566.66	587.74	427.36	430.44
Mexico (27)	1221.75	0.1	1086.99	858.01	956.03	10558.81	-0.1	1.24	1220.00	1087.42	858.82	957.29	10573.70	1325.65	824.25	824.25
Netherland (19)	322.35	1.0	286.79	226.38	252.77	248.80	0.9	2.97	319.19	284.50	224.69	250.45	246.56	322.35	258.16	258.16
New Zealand (15)	92.11	-0.5	81.95	64.68	72.22	69.25	0.4	4.01	92.56	82.50	65.16	72.63	69.00	94.35	75.94	79.73
Norway (35)	277.98	1.2	247.32	195.22	217.99	238.86	1.3	2.11	274.56	244.72	193.27	215.43	235.88	277.98	222.24	226.01
Philippines (22)	195.61	0.4	174.03	137.37	153.38	256.03	0.3	0.62	194.89	173.71	137.19	152.92	255.19	-	-	-
Singapore (43)	412.59	0.3	367.08	289.75	323.53	265.98	0.2	1.01	411.16	366.48	289.44	322.63	265.48	466.21	363.57	363.57
South Africa (44)	328.71	0.8	292.46	230.85	257.76	335.78	0.5	2.31	326.09	290.65	229.56	255.87	334.24	437.78	314.20	372.81
Spain (37)	195.51	-0.1	173.95	137.30	153.31	188.06	-0.1	3.18	195.72	174.45	137.78	153.57	188.33	196.72	151.61	151.61
Sweden (48)	409.12	1.5	363.99	287.31	320.81	401.40	1.8	2.12	402.95	359.16	283.66	316.18	395.54	409.12	294.19	306.96
Switzerland (37)	248.59	0.7	221.17	174.58	194.93	197.04	1.0	1.50	246.90	220.07	173.80	193.73	195.05	264.34	219.29	225.26
Thailand (45)	129.94	1.7	115.60	91.25	101.89	128.19	1.6	2.66	127.74	113.86	89.92	100.23	126.16	193.95	112.17	148.06
United Kingdom (213)	265.54	0.9	236.25	186.48	208.22	238.25	0.8	4.02	263.06	234.49	185.20	206.43	234.49	265.54	222.43	224.29
USA (624)	299.93	0.2	266.84	210.63	235.19	299.93	0.2	1.99	299.39	266.86	210.76	234.92	299.39	299.93	243.29	243.29
Americas (795)	274.54	0.2	244.26	192.80	215.28	230.74	0.2	1.98	274.01	244.23	192.89	215.01	230.26	274.54	221.26	221.26
Europe (719)	231.52	0.8	205.99	162.59	181.55	196.48	0.7	2.95	229.66	204.70	161.67	180.21	195.05	231.52	194.31	195.42
Nordic (137)	350.50	1.4	311.84	246.15	274.84	300.78	1.3	2.07	345.85	308.26	243.46	271.37	296.97	350.50	261.13	277.67
Pacific Basin (876)	159.24	0.0	141.67	111.83	124.86	113.49	-0.2	1.23	159.27	141.96	112.12	124.97	113.71	177.01	150.59	150.88
Euro-Pacific (1595)	189.24	0.4	168 37	132.90	148.39	144.77	0.3	2.11	188.48	168.00	132.68	147.89	144.37	190.57	169.35	169.35
North America (740)	293.50	0.2	261.13	206.12	230.15	292.45	0.2	1.99	292.94	261.10	206.21	229.86	291.84	293.50	237.14	237.14
Europe Ex. UK (506)	208.09	0.7	185.12	146.13	163.16	172.01	0.7	2.33	206.55	184.10	145.40	162.07	170.77	208.08	174.81	175.54
Pacific Ex. Japan (396)	306.47	0.2	272.66	215.23	240.32	264.66	0.2	2.61	305.87	272.63	215.32	240.01	264.01	306.47	243.56	244.36
World Ex. US (1810)	191.30	0.4	170.20	134.35	150.01	150.13	0.3	2.10	190.52	169.82	134.12	149.49	149.68	191.56	170.24	170.24
World Ex. UK (2221)	221.53	0.2	197.10	155.58	173.71	188.75	0.2	1.84	221.00	196.98	155.57	173.41	188.39	221.53	189.62	189.62
World Ex. Japan (1954)	269.17	0.4	239.48	189.03	211.07	252.46	0.4	2.36	268.09	238.95	188.72	210.36	251.49	269.17	221.31	221.31
The World Index (2434)	225.32	0.3	200.47	158.24	176.69	193.17	0.2	2.05	224.83	200.22	158.13	176.26	192.69	225.32	192.65	192.65

India

The prime minister is committed to the reformist course of his predecessor. But, says **Mark Nicholson**, the job of sustaining his 13-party coalition may deflect him from it

Agenda changes in fight for consensus

It has almost become a party piece. Mr H.D. Deve Gowda, India's prime minister of five months, discards a prepared speech to an international business gathering and delivers instead an extemporised address. He urges investors to banish any "confusion" over the reformist intent of his ideologically diverse coalition government, insisting with a thump of the lectern that India's economic reforms are "irreversible".

Such unstuffy addresses, typified by the speech to the recent World Economic Forum in Delhi, are in character for the self-proclaimed "humble farmer" who emerged after May's elections as the unexpected leader of the 13-party United Front government. They demonstrate, as they are designed to, the former chief minister of Karnataka's endorsement of the reforms inherited from the defeated Congress party, and a general desire to continue them.

But, more often than not, they have ended with an appeal. "Please let me know how we can improve?" he asked one recent forum, lamenting India's inability to attract China-like sums of foreign investment. "Please help me, I am not an economist," he told another. "Give me concrete solutions."

Observers, notably foreign ones, have found such performances only partly reassuring. Coming from the head of a coalition embracing both zealous free-marketeers and old-school communists, they do underline that a real consensus has developed behind the economic reforms launched five years ago by Mr P.V. Narasimha Rao, the now beleaguered former prime minister. At the same time, though, Mr Gowda's cadenza appeals for "solutions" suggest a disconcerting lack of any clear vision as to what to do next.

This matters because India's passage towards greater integration with the global economy, and the full dismantling of 40-plus years of command and control, is far from complete and arguably reaching a critical stage. To take only the example of trade, India has cut its maximum tariff from above 300 per cent to 50 per cent since 1991, but, as the International Monetary Fund, the World Bank and most recently the World Trade Organisation have pointed out, its progress in opening its economy considerably trails the rest of Asia and its competitiveness is thus at risk.

India is only just, and grudgingly, considering ending a 50-year-old ban on almost all consumer goods imports. As Mr Anwarul Hoda, deputy director of the WTO, recently pointed out, its developing country competitors have torn down such barriers faster. "There are hard decisions to be taken and sacrifices to be made," he says. "But there is little choice if India wishes to avoid marginalisation."

Other hard decisions lie ahead. Means must be found to tackle India's huge fiscal deficit, 5.9 per cent of GDP in 1995 and looking stubbornly close to the same figure this year. India's ailing public sector enterprises, which remain a net drain on public accounts, must at the very least be radically reformed, if not sold to retire some of India's dangerously high internal debt, now 62 per cent of GDP.

Financial sector reforms remain incomplete without some liberalisation of the state monopoly in insurance, a move that would help create longer-term funds to finance urgently needed infrastructure projects. And, without further and braver regulatory and policy measures, India is unlikely to draw, either from abroad or at home, the $100bn-$150bn it needs to make its roads, ports and telephones work efficiently and, most urgently, to generate and supply enough electricity to meet a rising power deficit.

The premier, H.D. Deve Gowda: observers fear he lacks the vision to carry restructuring forward

Though all these issues have been high on India's agenda for the past two to three years, little has been done to address them directly. Rather than press on with the reforms begun in its first two years in office, the Congress government devoted more energy in the latter years of its term to an abortive attempt to win re-election, in the process so squeezing domestic liquidity in a bid to bring down the politically sensitive inflation rate that it helped pitch India into its present economic slowdown.

The delays brought by this year's election and the eventual formation of the United Front slowed concerted government action. And the effect of the corruption charges in which Mr Rao and many of his former lieutenants are now embroiled, has also been immobilising. "Bureaucrats are now too scared stiff to take decisions," says the head of one foreign institution in Bombay.

For Mr Gowda to insist five months into his term that reforms are "irreversible" strikes some domestic and many foreign observers as insufficient. "Standing still is not an option," said one senior European businessman at the recent World Economic forum. "And asking for solutions suggests a prime minister who doesn't know what to do, who's lost." More than one participant at the forum stood up and asked ministers when the "second phase of reforms" would begin.

Such criticisms strike the truly reformist members of the present government as unfair. Mr P. Chidambaram, who many believe is at heart a more zealously reformist finance minister than Mr Manmohan Singh, his predecessor and oft-touted "architect" of reforms, offers a feisty defence of his government's record. He points out the UF has in five months cleared a two-year backlog of foreign investment proposals, worth more than $5.5bn. His ministry has liberalised foreign investment into Indian commercial debt and unlisted securities. Plans are afoot to increase the number of industrial sectors that are open to automatic foreign investment from the present 36. For the first time, he says, an Indian government has publicly contemplated outright privatisation of "non-core, non-strategic" public enterprises.

But, as he acknowledges, he and other reformers in the coalition must "nurse the consensus" within a multi-party government, the bulk of whose members represent poorer, agrarian constituencies and which depends for support on India's Marxist Communist Party, whose leaders oppose "indiscriminate privatisation or across-the-board liberalisation".

Indeed, even sustaining the political consensus to keep the UF in power is proving engrossing enough work for Mr Gowda. The 13 parties that combined in June did so essentially out of a united desire to block the Hindu nationalist Bharatiya Janata Party, which emerged as the biggest party in the May elections. In keeping out the religion-based BJP, portrayed as a direct threat to India's secular constitution, the UF won external support from both the Communists and the defeated Congress party.

But the resulting political structure leaves the UF vulnerable both to rivalries within, and threats of withdrawn support from without. In particular, Mr Gowda must keep his eyes fixed closely on the beleaguered Congress party, wounded by an historically poor showing in the May polls and the corruption scandals enveloping Mr Rao and other ex-ministers, but increasingly determined under the leadership of Mr Sitaram Kesri, its new 78-year-old president, to appear no political pushover.

Mr Kesri has not given up hope of tempting back into mother Congress – still parliament's second biggest party with 142 MPs – some of the dissident former MPs and factional parties that split from it before last year's polls. Since many of these now form part of the UF, such manoeuvring raises a direct threat to the present government.

Unfortunately, these new complexities in Delhi politics are unlikely to prove a quickly passing phase. This year's elections underlined decisively the secular decline of the Congress party, which had ruled India for all but a handful of years since independence, but which for the first time saw its share of the popular vote fall below 30 per cent. Before the mid-1980s it could count on more than 45-50 per cent. In its place across the country have arisen assertive

Continued on page 10

IN THIS SURVEY

Indian soldiers in Kashmir: some observers say preoccupation with problems in the state has delayed much-needed policy reviews

■ **Foreign policy:** by Quentin Peel

The shock of the old

The traditional principle of non-alignment is not enough in today's world

India's foreign policy-making establishment is in a state of shock.

Last month, the country's election to fill the vacant Asian seat in the United Nations Security Council was considered a foregone conclusion. Thanks to overwhelming support from the rest of the non-aligned movement, India's diplomats calculated they might even win an outright majority in the first round of voting in the UN general assembly. If not, a clear victory over Japan in the second seemed assured.

In the event, the opposite came true. In the words of one foreign policy commentator in Delhi, it was a "shattering blow" to Indian pride, and it caused a frantic post mortem to be launched in the broad colonial corridors of the Ministry of External Affairs.

To others, however, the defeat was a necessary reminder that Indian foreign policy, unlike its economic counterpart, has failed to adapt to the changing reality of a post-Cold War world.

"We have become too conservative. We just keep restating our position, instead of coming up with something new," says Mr Salman Khurshid, former deputy foreign minister and Congress party MP.

The defeat in the UN general assembly followed India's isolation in the international debate over the Comprehensive Nuclear Test Ban Treaty (CTBT), when it was left in an uncomfortable minority of three – with Libya and Bhutan – in opposing the agreement. India's diplomats insist that there was no causal link between the two events, but their inability to avoid isolation over the CTBT was certainly a graphic illustration of the country's foreign policy dilemma.

In the first place, tradition and a certain nostalgia do play a big role in policy-making. When Mr I.K. Gujral, the veteran foreign minister, came to London in September to explain his nuclear policy stance, he began by quoting Jawarharlal Nehru, the architect of Indian independence. He had "conceived the doctrine of non-alignment, which India continues to wear as a badge of identity and honour", he declared.

"The mind that determined in the 1950s to stay away from the global power divide and plough an independent, if at times lonely, furrow ... recently determined to stay out of the so-called CTBT, because it did not even touch the central issue of ridding the world of the curse of nuclear weapons," he said.

There is no doubt that opposing the CTBT is also a very popular policy back home. "It is very easy to carry people in India by saying we will not accept terms being dictated to us by the nuclear powers," says Mr Khurshid. "It is like not having to sell the non-aligned movement, or not having to sell our friendship with the former Soviet Union. You get the impression there is tremendous support for our position."

The end of the Cold War, and the collapse of the former Soviet Union, are inevitably causing a rethink of foreign policy priorities. That means refocusing on regional issues, on relations with neighbouring states, and on questions of economics and trade, rather than the high-flown principles of the early years of independence.

It is clear that opposition to the test ban treaty is not just a position of principle, but also a reflection of India's perceived strategic and security interests. On that score, the greatest threat identified by India's security analysts is not the obvious one – a nuclear-capable Pakistan. It is the often unspoken challenge of China.

"The real threat is China," according to one senior diplomat. "The fact is that China has ringed India round."

He cites missiles stationed in Tibet, which could be fitted with nuclear warheads; a 500,000-strong army in Myanmar "armed to the teeth by the Chinese"; a Chinese submarine base being established in the Coco islands; and long-standing nuclear co-operation between China and Pakistan.

It is another issue on which Mr Khurshid believes there is an urgent need for policy reassessment. "Nobody will say openly: China might attack us. On the nuclear issue, you only hear people talking about Pakistan.

"We have nothing going with China. We share no secrets. We don't discuss regional issues. China does not come to us. They are in a world of their own. We have no direct flights between Delhi and Beijing ... We do have border trade, but it is tiny. Our papers don't write about China. Our institutions are not linked. Our leaders don't know each other. We have given China no reason to worry about us, and we have no reason to worry about them. But that is a terrible relationship between two such important neighbours."

Mr Khurshid cites India's preoccupation with the unresolved issues with its immediate neighbours, above all the dispute with Pakistan over Kashmir, and with Bangladesh over water rights and transit routes, as the reason for its failure to focus on its greatest long-term strategic challenge.

On those outstanding scores, however, Mr Gujral is seeking to break the deadlock of recent years in a determined effort to improve relations.

"On Pakistan today we have taken a conscious decision that we are not going to react to provocation," says Mr A.N. Ram, secretary for economic affairs in the foreign ministry. "We want the past to be totally forgotten. We want to normalise relations very quietly, without any fanfare. All the rhetoric coming out of Islamabad has been swept under the carpet in India."

India has unilaterally eased travel restrictions, doubling the number of visas it is issuing to Pakistani citizens. But trade relations and communications between the two countries remain practically non-existent.

Mr Gujral has also sought to break the negotiating deadlock with Bangladesh, where India has offered to guarantee that country's water supplies, in exchange for transit routes to ease communications with its own easternmost states.

At the same time, the new Indian government is seeking belatedly to improve its relations with the rest of Asia, as a "dialogue partner" with Asean, and by becoming a full member of Apec, the Asia-Pacific economic community.

The other key area for future focus is Central Asia, from where India could well hope to get its oil and gas supplies in the 21st century. But the creation of substantial trade links almost certainly means opening up routes through Afghanistan and Pakistan, as well as via Iran – which brings India full circle to the need to improve relations with its immediate neighbours.

That will require an extraordinary balancing act, for India and Pakistan are already direct competitors for influence in central Asia: the former in seeking to ensure that the old Soviet republics remain firmly secular, the latter in hoping to bring them into the Islamic fold. It is a struggle reflected in the current battle for control in Afghanistan, between the Pakistani-backed Taliban, and the former government favoured by India. So the prospects for any early reconciliation between the two halves of the former British empire in India must remain decidedly bleak.

■ **Corruption:** by Quentin Peel

Slaying the 'monster'

The judiciary aims to eliminate the bribery now endemic in Indian public life

Hindustani, a grim and gory tale of corruption and family strife, has been one of the biggest hits of the year on the Indian movie circuit.

Kamal Hassan, a leading film star from southern India, plays both father and son. The father, a freedom fighter and follower of Mahatma Gandhi, is a pillar of honesty and austerity. His son is an ambitious young civil servant, who discovers how lucrative it can be to demand bribes every time he agrees to move a file to the next bureaucrat's desk.

In the end, the cancer of corruption tears the family apart, and the father kills his son. It is a story that has had audiences weeping in the aisles.

There is little wonder that India is currently obsessed by corruption. Scarcely a day goes by without new revelations in the media of some "scam" in the bureaucracy, business or the political establishment. After years of apparently tolerating a system riddled with pay-offs, to the smallest bureaucrat as well as to the most powerful politicians, public opinion has been galvanised to fight it.

In the front line of the battle stands the judiciary, which has seized the chance to flex its muscles and prove its independence from what is widely perceived to be a thoroughly dishonest legislature and executive. The effects have been dramatic.

The former prime minister, Mr P.V. Narasimha Rao, was forced to resign as president of the Congress party in September, after being charged in a series of cases involving alleged fraud, conspiracy to cheat, and bribery of fellow politicians.

More than 25 top politicians, including seven former government ministers, and opposition parliamentarians, are alleged to have taken bribes, after their names or initials were found in the diaries of a businessman under investigation for illegal foreign exchange dealing.

Among the accused is Mr Sukh Ram, the former telecoms minister, who has been under investigation since more than Rs36m in cash was found in two trunks and 22 suitcases at two of his homes.

"We are snowed under with corruption," says Dr S.D. Sharma, a 78-year-old businessman and former freedom fighter who is set to establish a branch of Transparency International (TI), the anti-corruption organisation, in India.

It is a sorry state of affairs for a country that set out on the road of independence 49 years ago with such high hopes and high standards. "It was all right up to [prime ministers] Nehru and Shastri," Dr Sharma says. "With the traditions of Mahatma Gandhi, we were bound to oppose corruption in all forms. But gradually from Indira Gandhi's time, the corruption has increased and become a monster."

It is not just political corruption that is the problem. Petty corruption is almost endemic.

"What is different here from elsewhere is that at the daily interface between government and the ordinary citizen, there is so much corruption," according to T. N. Ninan, editor of the *Business Standard* newspaper. "We cannot inter-act with anyone in the system, whether it is a traffic policeman or a tax inspector, without corruption."

Tales of paying Rs10,000 bribes to get a telephone installed are common – and of having to repeat the bribe when the first attempt still fails. Slum dwellers in Ahmadabad have to pay city officials Rs250 to have a hope of access to drinking water.

Dr Ashok Desai, former chief economic adviser to the government, says that large-scale political corruption probably amounts to only 1 per cent of the total. "Bureaucratic corruption is far more serious. But if the politicians were not corrupt, the bureaucrats would not dare to be."

Yet the difference between India and most of the other countries tarred with the corruption brush is that it is using its legal institutions to tackle the problem in the open. Between the judiciary, the press and the public, a determined effort is being made to curb the worst excesses.

"The people today have lost confidence in the politicians and the executive," says Mr Jeetendra Sharma, a senior advocate at the Supreme Court. "They find when there is an excess, or where politicians are running amok, the judiciary is the only institution where they can turn. That is why the judiciary is playing a more and more important role."

"It isn't that the amount of corruption has suddenly gone up," says Mr Ashok Desai (no relation to Dr Desai), the attorney general in the new coalition government. "These are all cases relating to events four or five years ago. But there was a feeling that the investigators were dragging their feet. So members of the public brought the cases to the courts directly."

Mr Ninan would beg to differ. "I think the Rao government was worse than any of its predecessors," he says. "Under the Gandhis, they tried as much as possible to centralise fund collection, precisely because they saw there were a lot of sticky fingers. Corruption was just on a few big defence deals, and other major purchases.

"Under Rao it spread out much more. He allowed his ministers to do what they wanted. The effect was a very corrupt government."

Mr Ninan is not persuaded that the judiciary can really make a difference in the end. "Can we get rid of corruption? I don't see it happening. Corruption is very deeply ingrained in the system. All the people who talk about corruption are corrupt themselves: they have to bribe people to get a driving licence. They cheat on their taxes."

Yet there is little dissent among senior lawyers at the role the courts have begun to play. "Some people call it over-activism," says Mr R.K. Jain, president of the Indian Bar Association. "That isn't the case. The judiciary is only discharging its responsibility under the constitution."

And Dr Sharma agrees. "I have the feeling that the situation has taken a turn for the better," he says. Abuse of election spending, one of the prime reasons for political corruption, has been curbed by a fiercely independent election commission. And a new law now before parliament seeks to establish a Lok Pal, or public guardian, to whom any member of the public may appeal to investigate cases of abuse of public office.

"The worst I think is over," he says. "After a few years, the country will find fewer government controls, and less corruption at lower levels. Up to now, every licence and every permit meant an opportunity for corruption. Liberalisation will mean less corruption."

Call for radical action

Economists are pressing for the reduction of the heavy subsidies paid to farmers

In the short run, the success of India's reform programme may be measured by its ability to deliver electric power. In the long run, it will not be sustainable unless ways are found to reduce heavy subsidies on agriculture and make production more efficient.

According to the World Bank, India spent 8 per cent of its gross domestic product in the fiscal 1994-95 year on farm subsidies. Spending at that level cannot be maintained, especially since little of it finds its way into productive investment, the bank argues in its latest country report.

Not only are power supplies, irrigation and food subsidised, but fertiliser prices are also kept artificially low: the subsidy was increased by Rs22.5bn in the last budget officially to rebalance the use of different types of fertiliser. The aim is to produce cheap food while maintaining farm incomes.

But, according to the bank, much of the benefit is eaten up by high margins at fertiliser and food processing companies, and a serious dearth of investment threatens India's longer term ability to meet food demands.

So far, the new government of Mr H.D. Deve Gowda has taken a cautious line on farm reform. Mr Chaturanan Mishra, communist farm minister in the United Front Coalition, blames high international prices of fertilisers for the subsidies.

"We must see that our farmers survive and don't become the victim of international markets. The government is friendly to the markets, but the markets aren't very friendly to the government," he says.

India, which has begun to export some wheat and rice, could become a large exporter, he says and must raise the output of foodgrain.

To this end, the government has taken steps to improve farmers' access to credit, to help raise output by testing soil so that the right amount of fertiliser is applied and to increase the use of high yielding seeds, Mr Mishra says.

More policy changes could be on the way, however. When he was chief minister of Karnataka, Mr Deve Gowda launched some sweeping reforms of agriculture, including measures to commercialise the irrigation system and give farmers a greater say in the way it worked. Last month, Mr Gowda said the government would work on a similar plan at national level that would seek to provide a greater incentive for private-sector investment.

But abolition of farm subsidies would be a radical step and would hit farmers hard, unless softened by direct income support. Agricultural economists say that would be a more desirable approach since the removal of market distortions would encourage investment. Government spending on farmers could then be reduced but better targeted.

When it comes, the national policy document will be scrutinised to see how far it moves in this direction. For economists watching India's reform process, the reduction of fertiliser subsidies, in particular, will be an indication of the United Front's determination.

Peter Montagnon

■ Economy: by Mark Nicholson

Faltering steps on the upward path

While reports of recession are exaggerated, the negative signs are hard to ignore

Business press headlines screaming "recession" have certainly overstated the case, but India's marked economic slowdown in the past few months has nevertheless rung some alarm bells in government and industry. For the first time since the economy began responding to industrial deregulation and freer trade and investment policies four years ago, the upward trend of growth has faltered.

Industrial growth, 12 per cent last year, slipped to 8.5 per cent in the five months to August. Import growth, a barometer of industry's appetite for inputs, averaged a dismal 4.7 per cent to August against 37 per cent for last year. Export values have risen by just 9.8 per cent in the same period, half the government's target and well below last year's impressive 28 per cent rise. Investment rates, too, have gone off the boil, judging from lower sanctions by state-run lending institutions and a slide in commercial bank credit to the private sector.

What remains unclear is whether the slowdown is merely cyclical or betokens a more long-term downward rating of India's growth prospects. The answer appears to be a little of both.

As new administrations are wont to, the five-month-old United Front government largely blames its predecessor for the present economic problems. In particular, it points to the previous Congress government's pre-election gambit that helped suppress inflation rates at an artificially low rate of just over 4 per cent.

This, combined with strong government competition for market borrowings to finance its deficit, pushed nominal interest rates up to the point where some premium corporate borrowers were paying as much as 19 per cent for bank lending. "They squeezed money supply to the rate where we are feeling the hurt now," Mr P. Chidambaram, finance minister, said recently, duly acknowledging his own complicity in the measures of a Congress government of which he was then part.

To help address a resulting liquidity squeeze that has had industry squealing for the better part of a year, the government last month announced phased cuts in the cash reserve ratio (CRR), the percentage of statutory deposits commercial banks must keep with the central bank. A two-stage cut in the ratio to 10 per cent by January would pump Rs85bn into the financial system. The central bank also announced other measures aimed at freeing funds for the banks, while leaning on them to cut lending rates. Most are now doing so.

However, high interest rates are perhaps not the sole cause of the present slowdown. Another, suggests Mr Shashanke Bhide, economist with the National Council for Applied Economic Research in Delhi, could be last year's unexpectedly poor agricultural output. Foodgrain output fell 3 per cent last year, prompting the government to have to revise last year's estimated GDP growth to 6.3 per cent from an initially touted 7 per cent.

Political factors also enter the mix. Uncertainty before last May's general elections, the delay in forming India's present 13-party coalition government, the fact that this year's budget fell three months into the present fiscal year, and residual business uncertainty about the direction and stability of the government all offer good reasons for businesses to have deferred investment or import decisions.

With the policy outlook arguably becoming more settled, fresh funds entering the banking system and a ninth excellent monsoon promising a record foodgrains crop of more than 200m tonnes this year, many analysts and industrial bodies are now forecasting a second-half economic revival. Moreover, not all the industrial figures are as disappointing as the grossed totals. Manufacturing growth, for example, is running at 10 per cent.

Given that the agricultural sector is expected this year to post 4-6 per cent growth and broad money supply is likely to grow by 16 per cent, against 13 per cent last year, both government and independent economists believe India can end the year matching GDP growth of just over 6 per cent for a third successive year.

But proud as such an achievement may seem, Mr Chidambaram and his economic team recognise it is not good enough. India's growth target, one which would make a real impact on the poverty that afflicts perhaps 30 per cent of its 920m people, must be 7-8 per cent a year. And the stark lesson of the recent slowdown is that India is not yet within sight of that growth range.

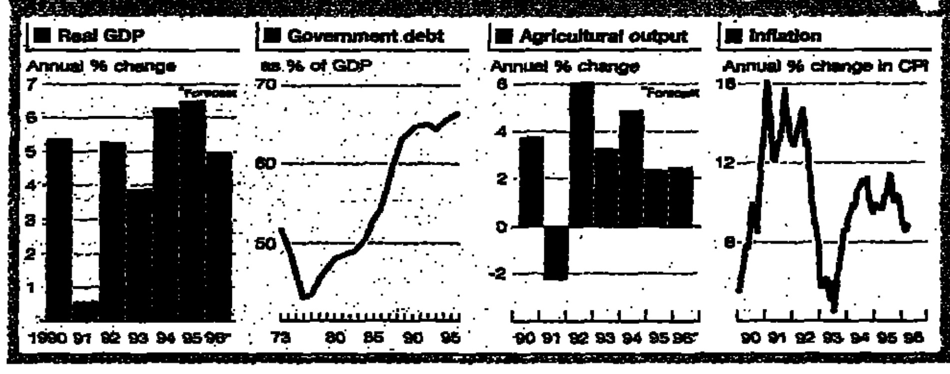
Two factors stand out. One is India's lamentable infrastructure, which puts a brake on industrial output in ways not always directly discernible in official statistics. Where they are discernible, the outlook is worrying. For example, among the chief dampeners on first-half industrial growth figures is a fall in crude oil production and a miserably low 2 per cent rise in electricity output. Neither sector is likely to improve output significantly within the next 18 months to two years, and each affects the basic costs and efficiency of industry.

The second is India's perennially high fiscal deficit. Mr Chidambaram claims the slowing economy has not yet significantly hurt government receipts. Finance ministry officials also claim that spending is not only under control, but that total expenditure might even undershoot by Rs20bn-Rs30bn by the end of the fiscal year. If the deficit appears to be heading for more than the budget target of 5 per cent of GDP, Mr Chidambaram has indicated he will impose new revenue measures or spending curbs.

Nevertheless, delays in the government's asset sales programme are likely to deprive it of much of a budgeted Rs50bn in disinvestment revenues. Spending targets are also expected to be tested by the forthcoming recommendations of a public sector pay commission. And gross revenues will only stay in line with budgeted figures if the economy does indeed pick up fast and substantially. Few private sector economists are therefore inclined to believe Mr Chidambaram will meet his deficit target.

Even if he does, he will have made too little impression on the government's gross stock of debt, or the rising cost of servicing it, to liberate the Indian economy either from stubbornly high interest rates or indeed, respectively, a dangerous internal debt trap. Reducing the deficit to 5 from last year's 5.9 per cent of GDP would cut the stock of total government debt marginally to 61 per cent of GDP from 62 per cent, and interest charges to 46 per cent of GDP from 47 per cent.

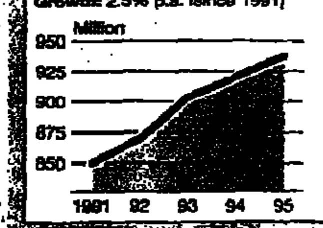
The only feasible means of making inroads into this debilitating government debt, many economists and much of Mr Chidambaram's economic team would agree, would be through a privatisation programme big enough to enable significant retirement of debt. Given the resistance to state asset sales within the present coalition government, no such programme appears possible. For the time being, therefore, an Indian economic growth rate skirting 7 per cent is unlikely.



■ Population

Total: 936 million (1995/6)

Growth: 2.5% p.a. (since 1991)



■ Main cities/towns*

New Delhi (capital)	8.5m
Calcutta	11.6m
Bombay	11.8m
Chennai (Madras)	4.2m
Bangalore	2.9m
Hyderabad (inc Secunderabad)	2.5m
Ahmadabad	2.5m
Kanpur	1.6m
Pune	1.6m

*1993 population figures

■ Economic summary

	1993	1994	1995*
GNP, at factor cost (Rs bn)[1]	7,174	8,395	9,318
Real GDP growth, at factor cost (%)[1]	5.0	6.3	6.1
Wholesale price inflation (%)[1]	8.4	10.4	8.5
Exports ($bn)[1]	22.2	26.2	31.8
Imports ($bn)[1]	23.3	28.3	38.4
Current account ($bn)[1]	-0.1	-3.1	-6.4
Reserves excl gold ($bn)	10.2	19.7	17.9[2]
Total external debt ($bn)	92.0	98.7	102.4

[1] Fiscal years beginning April 1 [2] Actual *EIU estimates & revised official estimates

■ Leading exports*

Garments	12.5%
Precious stones (net)	10.9%
Cotton made-ups	8.5%
Machinery/transport equip.	5.7%
Leather/leather goods	4.0%

* % of total (1994/5 figures)

■ Leading imports*

Capital goods	26.5%
Oil (net)	19.2%
Iron and steel	3.8%
Fertiliser	3.7%
Non-ferrous metals	2.5%

■ Leading markets**

US	18.1%
Japan	7.9%
Germany	6.9%
UK	6.2%

** % of total (1993/4 figures)

■ Leading suppliers**

US	11.7%
Belgium	8.1%
Germany	7.7%
Saudi Arabia	6.7%

■ Tax

The corporate tax rate for domestically owned companies is 40%, plus a 15% surcharge. Foreign-owned companies are subject to a 55% tax rate. Tax-sparing arrangements with some countries can reduce the 25% tax on dividends remitted abroad.

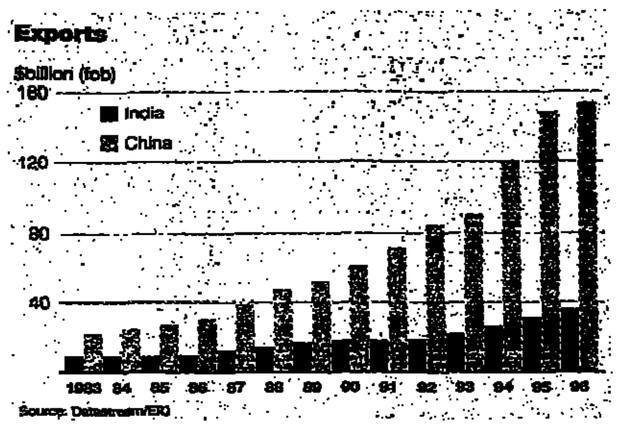
The personal tax rate starts at 20% and rises to 40% on taxable income over Rs120,000 ($3,500) per year.

Visitors whose stay exceeds 90 days must present an Income Tax Clearance and Exemption Certificate issued by an Income Tax Officer on departure.

■ **Trade:** by Peter Montagnon

Old protectionism restricts progress

Without further liberalisation, export growth will remain hard to achieve



There is a certain piquancy to last month's warning by Mr Anwarul Hoda, deputy director-general of the World Trade Organisation, that India risked being marginalised in the world economy if it did not step up the pace of trade and investment liberalisation.

The statement smacks of the zeal of the convert: Mr Hoda was a senior Indian trade official at a time when his country was not renowned for its espousal of liberal trade policies.

India's conservatism is seen by many economists as one reason why it has made a much smaller mark on the world economy than its arch rival, China. While China's share of world exports more than tripled from the start of the 1980s to 3 per cent last year, that of India has only inched higher to 0.6 per cent from 0.5 per cent.

A poor infrastructure may be one explanation for this performance. India's ports are congested and inefficient. It has nothing to compare with Hong Kong's massive container port, through which many of China's exports pass. Another may be the fact that among its more significant exports are those such as textiles, whichface big protectionist barriers in the outside world.

But the chief problem is the tradition for business to focus on the country's own protected markets. Unlike China, whose economic reforms have been under way since the early 1980s, India only really began reform with the foreign exchange crisis of 1991. Though much has been achieved, average weighted tariffs are still nearly 29 per cent, with a peak tariff of 50 per cent.

The country is facing pressure from its trading partners to push liberalisation further. To avoid trade conflicts, it must try to comply.

Consumer goods are a case in point. Traditionally, India has justified its restrictions by claiming balance of payments problems, but this excuse will no longer wash with the US and European Union. It is expected to produce proposals for a phased abolition of the restrictions at a meeting in the WTO next January.

Among the other trade issues on the agenda are:

● **Intellectual property** The US has lodged a complaint against India in the WTO for its failure to introduce legislation called for in the wake of the Uruguay Round.

Such legislation would prepare the way for a switch from process patents to product patents by 2005. Although it would simply allow pre-registration of products for such patents pending full implementation of the change, it failed to pass parliament in 1994. The new government is under pressure to pass it this winter, but public opposition is strong: lax patent laws are associated with the cheap price of medicines on which India's poor depend.

● **Trade and investment** India is under pressure from industrial countries to agree to discuss trade and investment issues at the WTO ministerial meeting next month in Singapore.

It has emerged at the forefront of developing country opposition to putting this item on the agenda, fearing that the industrial countries simply want to impose on emerging economies the code on investment rules currently being worked out by the Organisation for Economic Co-operation and Development.

● **Information technology** There are calls for India to join the group of countries seeking progress in Singapore towards an agreement to cut tariffs on imports of computer hardware. Though the imports affected would be quite small, India has so far resisted. Supporters of the agreement argue that cheaper hardware is needed for the further development of India's hitherto successful computer software industry – otherwise it will face a competitive disadvantage compared with countries with access to cheap inputs.

● **Textiles** Ironically for a leading exporter of textiles, India is accused by both the EU and the US of maintaining barriers to the import of certain categories of textiles, even those that it does not manufacture itself such as high-quality synthetic fibres. It counters that the developed countries have so far been grudging in their implementation of Uruguay Round commitments to phase out textile quotas by the year 2005.

Quite how the new United Front government will rise to these challenges is unclear, but it looks unlikely to move ahead aggressively, given its pre-occupation with the need to protect the incomes of the poor as well as its adherence to India's tradition of a planned approach to development.

Thus, says Mr Tejendra Khanna, commerce secretary, any programme to phase out restrictions on the import of consumer goods will have to take account of the position of small and medium enterprises, which enjoy exclusive rights to the production of items such as textiles, kitchenware and radios. "We will not act under any kind of pressure," he says.

A recent World Bank report identified four sectors where export earnings could grow: textiles and garments, diamonds, floriculture and horticulture. But it added that each has obstacles to climb.

In diamonds, it said India needed to improve its design and cutting range, while poor distribution and storage facilities were an impediment to the further development of horticulture and floriculture.

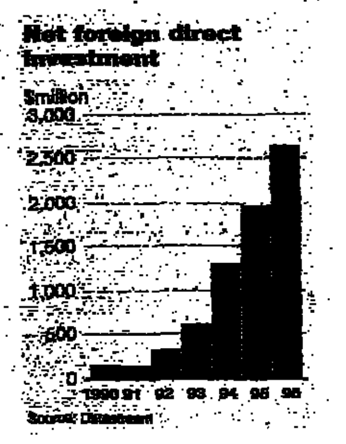
It said that textile exports should benefit from the liberalisation of world trade rules, but that success also depended on India's willingness to liberalise synthetic fibres further and to establish large-scale manufacturing units that would increase efficiency and allow the production of more added-value products.

But this is typical of India's dilemma. If it wants to move more into the global economy, it must give up many of the nostrums, such as the need to preserve small businesses, which are deeply enshrined in its social policy. The new government of Mr H.D. Deve Gowda talks loudly of liberalisation, but it does not show much inclination to deliver on the most radical elements.

■ **Foreign direct investment:** by Alexander Nicoll

Nehru legacy lives on

A culture of 'self-reliance' can still make life difficult for the overseas company



The inflow of foreign direct investment (FDI) has been quite small by international standards in the five years of India's economic liberalisation. Nevertheless, it remains a controversial subject in a country still haunted by the imperial legacy and 40 years of the Nehruvian philosophy of "self-reliance".

While industry in general recognises the boost that FDI can give to the country's competitiveness, there are repeated calls from some industrialists for official protection. The debate has been sharpened by the failure of some joint ventures and by Indian companies' complaints about their foreign partners.

In spite of these concerns and the bureaucratic and other problems that afflict foreign companies, the volume of FDI is growing steadily and there is little sign of a diminution in interest. Investors are attracted by the scope to improve India's appalling infrastructure, and by the huge potential of its domestic markets.

Applications for FDI totalling Rs204.9bn ($5.8bn) were approved by the government in the first eight months of 1996 compared with Rs309.1bn ($8.8bn) in the whole of 1995 and Rs89.6bn ($2.6bn) in 1994, excluding approvals for global depository receipt (GDR) issues. The total approved since 1991 is Rs736bn ($21bn).

However, actual flows are well below these levels. In the first eight months of 1996, they totalled Rs57.1bn ($1.6bn) compared with Rs63.7bn ($1.82bn) in the whole of 1995. Since 1991, total flows of FDI have been Rs179bn ($5.1bn), including Rs51bn ($1.5bn) of investment by non-resident Indians.

These figures will rise substantially as many cellular telephone franchises, all of which involve foreign investment, begin operating over the next few months. They would also be boosted considerably if the government were to make faster progress in clearing large power generation projects as well as licences for new fixed-line telephone services.

Those politicians and economists who accept the need for FDI with some reluctance generally stipulate that it should be used to support infrastructure projects. The figures show that this is in fact the area into which the bulk of foreign money is going.

Of all FDI approved since 1991, 24 per cent is destined for telecommunications, 10 per cent for power, 10 per cent for oil/fuel, 7 per cent each for services and food processing, and 6 per cent each for transport, metallurgical industries, chemicals and electrical equipment.

The United Front government, which came to power in June, has set an aggressive $10bn annual target for foreign investment. Mr P. Chidambaram, finance minister, told a conference in October: "This may appear threatening to some Indian industrialists, but this is what we need."

FDI, Mr Chidambaram said, was more than just money: it brought technology and management practices as well as opening new markets and making Indian industry more efficient.

However, his enthusiasm does not appear to be shared by some other ministers. For example, Mr C.M. Ibrahim, minister for civil aviation, says he will allow foreign investment in domestic private airlines, but not by foreign airlines. He is preventing a long-standing plan by Singapore Airlines and the Tata group to set up an airline.

Meanwhile, eight so-called "fast track" power projects targeted by the previous government have spent years working their way through

> Joint venture partners often find too late that they have opposing goals

the various stages of official approval and all but two are still awaiting the central government's promised guarantee of payment for power by state electricity boards.

Problems in the tenders for fixed-line telephone services have delayed a substantial amount of foreign investment and have caused a number of foreign companies to drop out.

There have also been several well-publicised setbacks that have damaged India's image in the eyes of foreign investors, especially in the US. Construction work on Enron's $2.8bn Dabhol power plant has yet to resume after the project was cancelled and then renegotiated by the state government in Maharashtra. Pepsico's KFC had its restaurant in Bangalore ransacked as part of a long campaign by local activists.

Many bureaucratic hurdles to investment remain, especially at the state level where companies must obtain many approvals including those for power and water connections. Unexpected problems have emerged in specific sectors. Foreign liquor companies, for example, had come to India in strength but found a succession of states suddenly introducing prohibition. Others, especially in consumer goods, have found it more difficult to break into the Indian market with foreign brands than they expected.

However, many companies accept such difficulties as just part of building markets in the developing world. Substantial commitments are being made to India by a host of large multinationals such as IBM, Motorola, General Electric, Pepsi, Coke, Ford, Daewoo, Samsung, Kellogg and Honda.

Foreign companies mostly opt to establish joint ventures because they believe they are not equipped to deal themselves with the necessary official contacts and labour issues, and because they feel that local companies already have distribution networks and market expertise.

However, a recurring problem is that joint venture partners find too late that they have differing goals. The foreign company, which has entered India for the long haul, is usually prepared to accept little or no profit for some years in order to develop markets. But the Indian company, often family-owned, is more accustomed to receiving a quicker return and, partly because of limited access to domestic financing, cannot provide the share of the funding that its partner expects.

Problems of contrasting corporate cultures, inadequate communication and changing priorities are common, say experts who follow joint ventures closely.

There is also a fear among Indian family managements that their companies and brands will end up simply being taken over by foreign companies.

"The Indian business has to be careful that it has something of value to add," says one. "If it can only offer government connections, that's not much. Foreign companies have to recognise sensitivities and choose partners carefully. They have to ensure that the Indian partner can hold up financially." Says another: "The only alliances which succeed are equal ones."

Companies such as Unilever, ABB, ICI and Siemens have long-standing, profitable subsidiaries in India that are listed on the stock market and are to all intents and purposes Indian. They are the models for new companies entering India. But their degree of assimilation takes many years to achieve.

■ **Infrastructure:** by Peter Montagnon

Red tape blackens the picture

Bureaucracy may frustrate ambitious plans for upgrading public services

According to Mr Manmohan Singh, finance minister in the former Congress government, India will need to spend some $200bn on modernising its infrastructure over the next five years. Of that, some $50bn will have to come from abroad.

One does not need to look very far to see why he is talking about such awesome numbers. From clogged ports to contaminated water and continuous power blackouts, India's infrastructure is creaking. Most economists now accept that it is a serious constraint on economic growth. "The cost of brownouts and blackouts exceeds by far the benefits of cheap labour," Mr Martin Posth, Asia-Pacific head of Volkswagen told a recent Delhi conference.

Yet attracting the finance needed to put the infrastructure right seems something of a tall order, when inflows so far have been low. Foreign direct investment transfers to India in the 1995-96 fiscal year amounted to only around $1.9bn, official figures show.

One person who believes that India can raise the amounts required to sustain a growth rate of around 8 per cent over the next 10 years is Mr Rakesh Mohan, director of the National Council of Applied Economic Research. Mr Mohan has been preparing a report on infrastructure for the government. He believes India can afford the necessary investments, though it may have to scale back some of its more grandiose ambitions.

The essence of his argument runs as follows. India's savings rate is expected to rise over the next 10 years from about 24 per cent in 1994-95 to a level around 27 to 28 per cent. That will reflect increased household savings by a more affluent middle class, as well as some probable net improvement in the position of the public sector.

Second, he says that India should be able to afford to run a current account balance of payments deficit amounting to around 3 per cent of gross domestic product, compared with 1.5 per cent at present, without undermining its creditworthiness. That would imply an investment rate of around 31 per cent (the sum total of the payments deficit and domestic savings).

Since spending on infrastructure normally accounts for approximately a quarter of total investment spending in most countries, one can extrapolate an investment rate on infrastructure of nearly 8 per cent of gross domestic product," an increase on the present level of between 5 and 5.5 per cent.

In dollar terms, that adds up to a total of between $115bn and $120bn over the next five years and a further $210bn to $220bn in the five years after that, Mr Mohan reckons. Of the total, some 15 to 20 per cent would come from abroad, again following patterns established elsewhere.

The figure is only about two thirds of the total obtained by adding up all the existing plans for infrastructure projects, he says. Though some of these may have to be scaled back, it should still be possible for India to achieve an 8 per cent growth rate, compared with around 6 per cent at present.

India may have to make do with fewer super highways, though it can certainly speed up traffic flows along its narrow and potholed roads. Similarly, it may require fewer greenfield power stations, relying instead on refurbishment and rehabilitation of existing capacity.

But while Mr Mohan's application of economic theory leaves him relatively sanguine, others are not so certain. One difficulty, says Mr Kamran Khan, a US aid official specialising in infrastructure, is that India's cumbersome and cautious bureaucracy makes it difficult to get projects off the ground.

The power sector has made little progress since Enron of the US and the state of Maharashtra settled their differences over the MW2,450 Dabhol project last year.

That project is still stalled because of other problems in the courts. Cogentrix, a MW1,000 project in Karnataka that has been the subject of considerable environmental controversy, is nearing financial closure. A MW235 gas-fired power station to be built by GVK Industries in Andhra Pradesh has reached financial closure but overall progress is painfully slow.

According to the World Bank's latest country report, the fundamental obstacle to private sector investment in Indian electricity remains the weak financial position of the state electricity boards that distribute power.

They are generally prevented by state governments from charging economic tariffs and are not allowed to cut off those customers who do not pay. They are too weak to contain theft of power from the grid, which is rampant in both rural and urban areas. As a result, they lack the financial strength needed to make them reliable customers of private sector generating companies.

World Bank officials say that India needs to reform power distribution if it is to attract large-scale private capital into the industry. It has shown the way with a $350m loan to the state of Orissa whose conditions included the privatisation of power distribution, tariff reform designed to raise revenues and reduce cross subsidies and the establishment of a power regulatory commission independent of the state.

How easily this model will be transferred to other states is another matter. Orissa has the advantage of having relatively few rural users of power. Theft from the grid is therefore less of a problem than in other states.

The broader question remains that of how the electricity boards will be able to persuade people to pay for electricity. Even the otherwise optimistic Mr Mohan admits this is a problem. "If the public sector infrastructure entities don't start operating on a commercial basis, the private sector won't come in either. There is no choice. It's not a substitute. The private sector won't come in unless people start paying charges."

To push the state governments into reforming their electricity boards, the finance ministry in Delhi has stopped granting guarantees on payments for private electric power. To some that is a cop-out, to others it is the only way to force reform, but the chances are that by devolving responsibility on to state governments the outcome will be patchy at best.

Those states that pick up the baton will attract investment and grow faster so that regional income disparities will increase. In the case of water – about which there has as yet been virtually no public debate – Mr Mohan says the problem may turn out to be even more acute. Making people pay for water may prove exceedingly difficult and there are already signs of wide differences in approach between individual towns.

India may in theory be able to attract the financial resources it needs to develop its infrastructure, but it still has to develop the right policies to do so.

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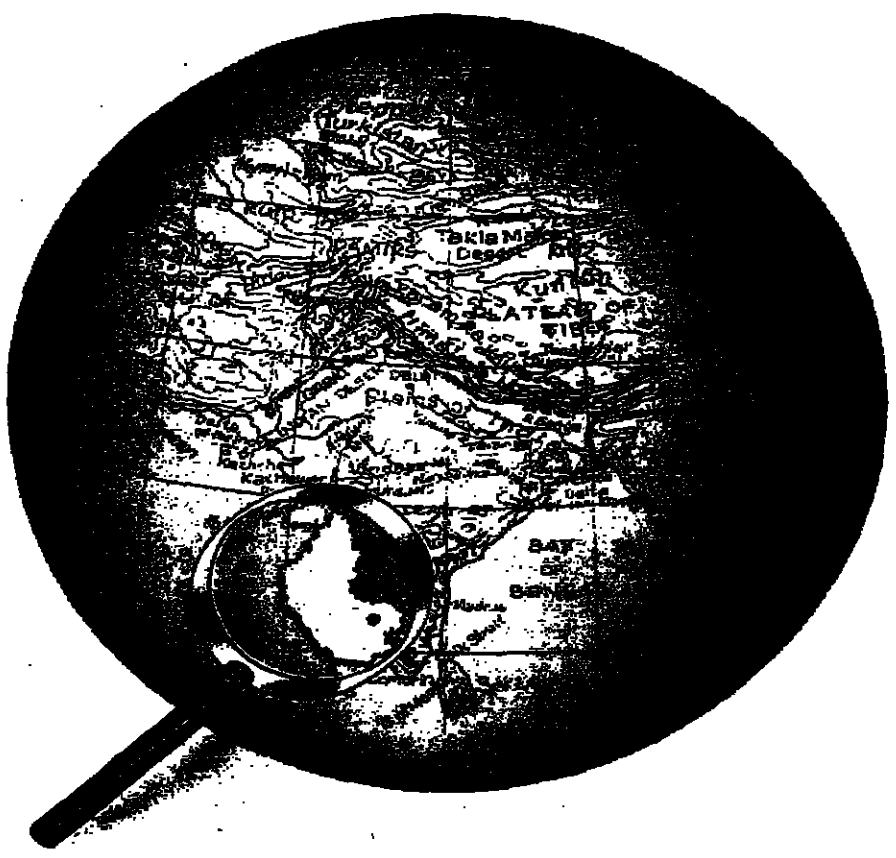

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■ **Tea:** by Kunal Bose

A Russian revolution

Experiments with branded products in Russia signal a new strategy for the tea companies

India, the world's largest producer of tea, has revised its export target for the commodity for the current year from 180m kg to 160m kg, mainly because of reduced buying by Russia.

The tea companies consider the move by Russia – traditionally the biggest importer – as temporary and believe that the best way to protect their incomes is to increase overseas sales of tea progressively.

Earlier this year, a consortium of five leading tea companies – Tata Tea, Magor, Warren, Rossel and Goodricke – started marketing high-quality Assam orthodox leaves in Russia under the Nargis brand name. The packeted tea, which was targeted at the upper end of the Russian market, has been well received, according to Mr S. S. Ahuja, chairman of the Indian Tea Board, and the consortium will soon use the brand name to sell tea-bags.

Mr R. K. Krishna Kumar, chairman of the Indian Tea Association (ITA), says experiments in other markets will follow. According to Mr Harish Parekh, chief executive of the consortium, the export of Nargis tea will be stepped up from 1mkg in the current year to 5mkg by 2003. Promoting a brand abroad is expensive, but the consortium is hopeful that it will get financial assistance from the Tea Board and the federal government's new India brand equity fund.

Mr Kumar believes the new strategy reflects the changing nature of the country's tea export trade. "As long as we export tea in bulk we will be exposed to the fluctuation in the commodity price. But if we sell tea in the world market as a branded product in value added form, then not only will the unit value realisation be much higher, but there will also be stability in income from export," he says.

About 40 per cent of Indian tea export is in value-added form. The industry is creating better facilities for making packets and bags and investing in the manufacturing capacity for instant tea. This will raise the share of value-added tea to 70 per cent of total tea exports by the turn of the century.

Mr Kumar says an important component of the strategy to build the export of value added tea will be the formation of a number of joint venture companies in foreign countries. "Our ultimate objective is to have a major brand abroad," he says.

The best tea in the world is grown in the hills of Darjeeling but lack of marketing effort has so far prevented its producers from realising its full value. Mr Ahuja says the leading producers in the hills are in the process of forming a consortium to market the "world's most exclusive orthodox tea". Darjeeling produces only about 11m kg of tea – all of it of orthodox variety. The per hectare yield in Darjeeling is about 600 kg compared with the national average of nearly 1,800 kg. As a result, the cost of growing tea is unusually high.

Besides selling more tea in value added form, ITA wants the volume of tea exports to be raised from 163.74m kg in 1995 to 255m kg in 2006.

Until 1991, India was selling more than 200m kg in the world market, but the disintegration of the Soviet Union, which used to buy more than 100m kg, dealt a blow to its tea exports. Moreover, it has lost ground to Kenya and Sri Lanka, which do not have a big domestic market for tea.

The collapse of the Russian market made the Indian exporters realise they had to hard-sell tea in as many markets as possible. The strategy is starting to pay off. India is exporting more tea to a number of European countries, to Japan, UAE, the US and Australia than it was a few years ago. It is also hopeful that the privatisation of tea buying in the Commonwealth of Independent States should work to its advantage.

Mr Kumar says: "An encouraging development during the current year is the good volume of purchase of Indian tea by Iran. I think that, in the course of time, CIS and Egypt will buy a lot more tea from here."

Iran bought almost nothing from India last year compared with the import of nearly 18m kg of tea from India in 1992.

Pakistan is one of the largest importers of tea at about 120m kg annually. However, for political reasons, India has yet to make a breakthrough there. "We are hopeful of doing business with Pakistan soon. We are in touch with the Pakistan Tea Association and the government," says Mr Ahuja.

"The market for tea is there. The challenge is in marketing the beverage at the best possible price," says Mr Kumar.

New markets, of course, pose supply problems. The ITA says that India must raise the production of tea to 1,079m kg at an investment of Rs80.7bn ($2.242bn) if it is to have an exportable surplus of 255m kg by 2006.

Raising the money for the investment depends on a number of factors. "If the tea prices remain good and the tax burden on tea companies is lowered, then the industry should be able to plough back Rs31.5bn in the next 10 years. We are discussing with the World Bank a line of credit of Rs41.7bn. The balance should be available from the Tea Board and the Indian financial institutions," says the ITA spokesman.

Turning over a new leaf...increasingly, tea is exported in packages

■ **Oil:** by Mark Nicholson

Urgent need for reform

Without radical restructuring of the oil sector the country could be hurled into crisis

The petroleum ministry recently calculated that falling domestic oil production, plus higher than expected crude prices, will add an unbudgeted $2bn to India's hydrocarbon imports bill this year. It is a nasty taste of things to come.

On a conservative estimate of oil prices, the government says that unless exploration by state-run or foreign oil companies conjures up some "great, pleasant surprises", India's hydrocarbons bill will inflate from this year's revised $9bn to nearer $26bn by 2010 – a cost the Indian economy would find hard to sustain.

Hence the importance of the recent report on restructuring India's oil industry by the strategic planning body, the R-Group.

The 119-page report is now doing the rounds of relevant ministries before being put to cabinet. But though it appears to address long-standing criticism of the petroleum ministry, which has dismally failed to match the pace of India's five-year-old reforms, no-one is holding their breath. "Everyone has had enough of talks about deregulation for the last three or more years," says an oil analyst with a Bombay-based foreign investment institution. "They want to see some action before they part with their money."

The need for action is acute. India currently meets just over half of its annual oil needs by imports and domestic production is falling fast. Reserves, concentrated in the Bombay High field off Maharashtra's shores, peaked at 806m tonnes in 1991 but have declined steadily since to stand today at 773m tonnes. Domestic output this year is likely to be 2.3m tonnes lower than last year's 35.5m, according to the petroleum secretary Mr Vijay Kelkar.

Mr Kelkar adds that within five years India will need to import two-thirds of its oil needs while, at present rates of depletion, its own unbolstered reserves will last only a decade more. The R-Group, which comprised oil bureaucrats, top officials from national oil companies and representatives from the domestic private sector, estimates Indian petroleum product consumption will leap from last year's 64m tonnes to 100m tonnes by 2000 and to 149m tonnes by 2010.

As the group's report makes clear, the need is therefore twofold: to attract far greater interest in exploration and production from leading foreign companies; to improve the exploration results, and overall efficiency, of India's state groups, primarily the Oil and Natural Gas Commission, which accounts for 90 per cent of India's oil output.

Broadly, the report insists that "the conventional practice of command and control has no place in the future of the hydrocarbon industry" in India, asserting that the present administered pricing mechanism (APM), which regulates and cross-subsidises almost all hydrocarbon product prices, must be phased out over four to six years, that domestic producers be exposed to competition and that their cossetting through "an unabated policy of grandfathering" ends.

It recommends that ONGC and Oil India Limited (OIL), the second leading national oil group hive off all ancilliary services and consider restructuring into board-managed operations. Such operations would be freed of the current burdens of government approvals for investments and APM-inflicted pricing controls, which leave ONGC and OIL receiving below-market rates for their crude with a knock-on effect on their investible resources.

Given the poor geological prognosis for further big oil finds in India, the report also recommends ONGC augments its own reserves by co-operating with companies overseas.

ONGC-Videsh, the group's new international arm, has already formed joint ventures with foreign partners to develop concessions in Vietnam, Tunisia and Egypt.

However, the report also acknowledges that presently cumbersome governmental approval procedures often "do not allow for such opportunities to be seized".

Indeed, the thick bureaucratic jungle through which all oil-related approvals must slowly move is also the chief complaint of foreign oil majors, whose presence in India remains limited despite nine rounds of bidding for exploration blocs since 1974.

In part, the foreign companies cite India's unexciting geology for their apparently lacklustre interest. "The view is they have found essentially all there is to be found," says one oil executive. More commonly, however, they cite increasing delays between the opening of bid rounds and the eventual award of contracts – the terms for which most agree are internationally competitive. Successful companies in the seventh and eighth rounds, for example, received confirmation of their awards only last month, almost two years after bidding was opened. "This kind of timeframe is just unacceptable to the industry," says the representative of one oil major.

The R-Group report lists a series of measures it believes could reduce the process to within six or even three months. But these are unlikely to reassure prospective investors unless the report itself moves more swiftly through the bureaucratic system than have previously weighty tomes on the restructuring of India's oil industry. Mr Kelkar professes optimism that the present United Front coalition will be possessed of the need to act on the report.

But for the reformists within a 13-party coalition, which also includes leftist and "social justice" parties opposed to cutting subsidies, turning the R-Group report swiftly into government policy would be an act of political courage.

Hydrocarbons: demand projections

Fuel	Unit	2001	2006	Growth rate 2001-2006 %	2011	Growth rate 2001-2006 %
Coal	million tonnes	386	489	4.8	626	5.1
Oil products	million tonnes	119	157	5.6	197	4.8
Gas	billion cubic metres	36.6	43.8	3.7	61.3	7.0
Primary power (generation)	Twh	164.7	206.7	4.6	235.9	2.7
Total electricity (generation)	Twh	605	779	5.1	988	4.9
Firewood	million tonnnes	271	271	0	271	0
Dung-cakes	million tonnes	130.0	138.8	1.3	150.0	2.4
Crop wastes	million tonnes	120.9	129.0	1.3	145.5	2.4
Biogas	billion cubic metres	2.4	3.1	5.3	3.9	4.7
Renewable	MW	1750	2625	8.4	3500	5.9

Source: Tata Energy Research Institute (1995), Oil Coordination Committee (1996)

■ **Gems and jewellery:** by Lisa Vaughan

Bad year for export star

A deceleration in the growth of overseas sales is worrying India's jewellers

The growth of India's gem and jewellery export business has slowed this year, with no immediate prospect of recovering the impressive rates of the past four years.

Industry sources say that changes in the global diamond market and new domestic regulations have led to the deceleration.

India operates what it calls an import-led export market in gems and jewellery, the country's second biggest foreign exchange earner, accounting for 17 per cent of total exports last year. It imports all its gold and diamonds and most of its coloured gemstones.

It then cuts, polishes and often sets the imported gems, all by hand, and re-exports them at a profit.

But, after growth rates ranging from 12 to 30 per cent in the past four years, coinciding with the opening up of the economy, gem and jewellery exports are expected to show only marginal growth during 1996-97 (April-March), says the Gem and Jewellery Export Promotion Council (GJEPC). The sector's exports were worth $5.4bn in 1995-96, according to the industry's export body. "We may not be able to do much better than last year if things continue as they are," says Mr V.S.A. Sury, secretary of GJEPC.

While India's domestic retail jewellery business is growing, drawing international names keen to get a piece of the expanding consumer market, the long lead time for Indian start-ups and a slowdown in economic growth mean it is unlikely to make up for lost exports.

Mr Shaashanka Bhide, an economist with India's National Council for Applied Economic Research, says: "The value added from gems and jewellery exports is important for income and tax revenues for the government. It is very important for India's foreign exchange and its export basket."

As an importer and the world's largest exporter of small cut and polished diamonds, India has been adversely affected by the termination this year of the supply agreement between Australia's Argyle Diamonds Mines and De Beers Central Selling Organisation, Mr Sury says. De Beers controls most of the world's diamond sales through agreements with producers.

Though the split was not official until Argyle's contract with the CSO expired in June, rumblings within the global industry began early in the year, affecting market confidence. After the rupture, Argyle began selling rough diamonds direct to the world market. The diamond trade has since suffered from oversupply, prices have declined, uncertainty about quality has increased, and inventories have piled up in manufacturing centres, official sources say.

According to Argyle general manager, Mr Mike Mitchell, India has been particularly badly hit because of the long credit lines it has given its buyers, and because a desire for rapid expansion has led to over-production.

For their own part, Indian exporters complain that new federal regulations are stifling their market, in spite of the government's assurances that it sees the sector as an export priority. Unfavourable dollar-denominated credit terms – nearing 20 per cent compared with single digits in other world centres – are crippling, they say.

Strict new procedures to prevent defaults, such as requiring exporters to route documents through banks, have slowed gold supplies to exporters and availability has been irregular.

"The way government policies are going I don't think there will be a rebound in export business," says jewellery exporter Mr Aziz Zaveri, of export house Yousuf Fazle Husain Zaveri in Bombay. "There are too many negative factors at work.

"I haven't found the government in this frame of mind for the last 10 to 15 years. It's a swing back from the opening up of the liberalisation era."

Mr S.N. Malik, chairman of MMTC Ltd, India's state-owned and largest bullion trader, said in October that MMTC's jewellery export business had been hit hard.

"Our gold exports have taken a beating," he says.

MMTC expects its jewellery exports for 1996-97 to be slashed to $20m, against $47m in 1995-96, because of the unfavourable market conditions and some reorganisation of MMTC's operations.

Recent data illustrate the market stagnation. India's April-August gem and jewellery exports totalled $2bn, against $1.98bn in April-August 1995, the GJEPC says. Diamond exports accounted for $1.68bn, down from $1.7bn last year.

Meanwhile, the domestic market continues to expand as India's gold and glitter loving élite eagerly awaits new spending opportunities.

Tiffany & Co of the US plans to open a New Delhi boutique in November with Group Beautiful, a leading diamond exporter, in spite of heavy import duties of up to 90 per cent on some lines.

Titan, the Indian watch manufacturer, has opened two up-market boutiques in south India to market its new jewellery brands. Two Bombay-based exporters, Intergold and Tribhovandas Bhimji Zaveri are also launching domestic outlets. Prices are expected to range from Rs1,000 ($28) to Rs25,000 ($715).

MMTC has also jumped into the retail market, setting up stores in Bombay and Delhi and duty-free shops at two airports.

■ **Information technology:** by Paul Taylor

Close to breakthrough

Companies' need to compete with multinationals is rapidly expanding the market for IT

The opening of India's economy to competition has focused attention on the need to update its ageing industrial and commercial infrastructure and introduce information technology to improve efficiency, productivity and time to market.

Meanwhile, India's fast growing and increasingly affluent middle class is rapidly developing an appetite for consumer electronics.

The impact of this surge of interest is reflected in figures for Indian IT hardware sales, which increased by almost 42 per cent to Rs35.6bn in 1995-96, according to Dataquest magazine.

This increase came despite the tighter monetary policies of the Reserve Bank of India, political uncertainties and the slide of the Rupee, which made imports around 15 per cent more expensive.

Spurred by the arrival of multinationals such as Ford Motor, companies in the Indian automotive sector are installing sophisticated distributed computer networks and high-powered manufacturing resource planning software.

In the banking and insurance sectors, privatisation and the arrival of new entrants are forcing the traditional state-controlled institutions to respond by introducing IT systems, often for the first time. However, there is still a long way to go: only a small fraction of the nation's 70,000 branches are automated.

Both central and state governments have acknowledged the importance of IT, not just in beginning to tackle India's labyrinthine civil service bureaucracy, but as a means of modernising the economy and creating jobs.

Government procurement policies have been opened up. For example, the monopoly the state-owned software group, CMC, had on supply to the public sector has been abolished.

One of India's greatest success stories in recent years has been the growth of software exports – now one of the fastest growing sectors of the domestic economy. In 1995-96, Indian software exports grew by 64 per cent to Rs25.3bn and generated $734m of foreign exchange earnings.

"The software export market has emerged as one of the highest net foreign exchange earners in the Indian economy," says Mr Dewang Mehta, executive director of the National Association of Computer Software and Services (Nasscom).

A wide range of multinationals including software companies such as Novell and Oracle has set up design centres in India to take advantage of the country's cheap but sophisticated technical skills. Many other US and European companies, including Citicorp, Motorola, Texas Instruments and Siemens, have established offshore software development operations in India.

The domestic software market has also performed well, posting a 56 per cent increase in sales to RS16.7bn, buoyed by the growth of the domestic IT market.

Leading international software groups including Microsoft, Novell, Oracle and SAP, the German enterprise resource planning specialist, have targeted India for growth, encouraged by the reduction in software import tariffs to 10 per cent and the introduction of tough anti-piracy laws. Microsoft, for example, has established a national system of distributors while SAP has teamed up with Siemens's Indian software unit to sell its R/3 package.

But multinational software vendors also face growing local competition, particularly in the financial services and manufacturing sectors, from domestic banking and resource management packages developed by companies such as Tata Consultancy Services, Infosys, Mastek, Ramco and others.

The growth of domestic software sales directly reflects the increasing acceptance of the need for IT investment. And, although the installed base of high technology products remains small by western standards, the potential size of the Indian market is huge.

For example, while India still has one of the lowest concentrations of computers in the world, PC sales are growing rapidly.

Among leading multinational suppliers, Hewlett-Packard, Acer, International Business Machines and Digital Equipment all have strong Indian joint venture partners. Other market leaders include Compaq Computer, the world's largest PC manufacturer.

Meanwhile, domestic manufacturers including HCL HP, PCL and Wipro are also reporting strong unit sales growth, although sharply falling prices mean revenues are rising more slowly. Generally, locally produced PCs cost 15 to 20 per cent less than imports.

Lower import tariffs and the falling prices of branded products are severely squeezing the so-called "grey market" – PCs built using illegally imported components. An Intel 486 PC that cost Rs45,000 to Rs50,000 a year ago now sells for Rs29,000, and HCL HP has recently introduced a home PC for Rs20,000, within the reach of many more Indians.

The growth of the domestic IT market is helping to fashion a new group of fast growing Indian IT conglomerates with a wide range of business interests. Among them are HCL, Pertech Computers and Wipro Infotech and Tata Unisys.

Similarly, most of the leading IT multinationals, particularly US groups such as AT&T and IBM have developed aggressive strategies and in some cases established Indian manufacturing operations.

Like their domestic counterparts, these groups are betting that the Indian IT market is on the threshold of a breakthrough.

■ **Textiles:** by Kunal Bose

Frayed at the edges

Old methods of production put the industry's competitiveness at risk

The Indocount Choongnam factory, with nearly 51,000 spindles built at an investment of Rs1.12bn ($31.11m) at Vadodara in Gujarat, has started trial production of cotton and blended yarns.

Choongnam Spinning of South Korea, the foreign promoter of the Indian joint venture, has transferred reconditioned spinning equipment to the Vadodara factory from one of its units to save on the capital cost of the project.

Mr Anil Jain, director, says the South Korean promoter has underwritten the viability of the project by giving a commitment to buy back 75 per cent of the production of yarns for a period of five years.

"Ours is a wholly export-oriented unit and we will have no problem in selling the remaining portion of our yarn production in the world market," he says.

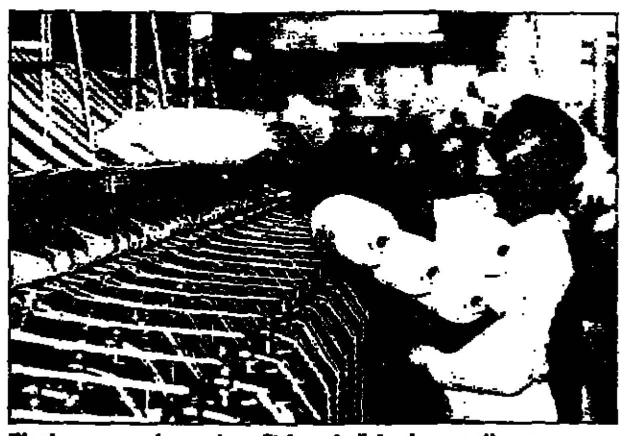
The Indocount Choongnam project is testament to the strength of the Indian textiles industry, whose ability to compete in world markets results from low labour costs and cheap supplies of raw materials. Mr Shekhar Agarwal, managing director of the cotton spinning factory Maral Overseas, explains: "The developed and the newly developed countries are gradually phasing out the production of cotton yarn, which is labour intensive. India stands to gain from this development. Besides the country's comparatively low labour cost, what gives the cotton yarn spinning industry in India an edge is the availability of the raw material at a 10 to 15 per cent discount over world prices."

There is, however, no guarantee that conditions will always be so favourable for the spinners and textiles companies. Led by Mr Sanat Mehta, an MP, the farmers are lobbying the government to remove the quota release system that regulates the export volume of cotton and so provides local factories with inexpensive supplies. A worried Indian Cotton Mills Federation (ICMF) has told the government that such a move would threaten its members' competitiveness. "If free export of cotton is allowed, then the best quality cotton will go out of the country and the overseas buyer will benefit at the cost of the Indian spinner. The basic strength of our cotton textile export lies in the relatively low prices of cotton," it says.

The textile companies' dependence on the commodity is heavy. Dr Rajaram Jaipuria, chairman of Ginni Filaments says cotton will continue to be the "predominant fibre" for the Indian textile industry. The share of cotton in the textile units' total fibre consumption of 2.722m tonnes in 1995-96 was as much as 2.184m tonnes.

The question is whether supply can continue to meet demand. Among all the cotton-growing countries, India has the largest area under the crop. But, according to Mr R.V. Kanoria, a former chairman of ICMF, due to the inadequate supply of genetically pure seeds, traditional methods of farming and an overdependence on the monsoon, cotton productivity of about 310kg a hectare compares poorly with the world average.

Mr Kanoria says productivity must be raised to about 400kg a hectare if India is to continue to have a large exportable surplus after meeting the growing demands of the domestic textile industry. ICMF's Cotton Development & Research Association has established that in rain-fed plots of more than 20,000 hectares in Gujarat and Madhya Pradesh, the productivity of clean and quality cotton can be stepped up by as much as 100 per cent through the right kind of practices, including better pest management and weeding operations.



Ripping yarn: spinners benefit from India's cheap cotton *Tony Andrews*

According to Mr Kanoria, the task of breaking the stagnation in cotton cultivation will be eased if the government allows the "corporate sector to supplement the efforts of the farming community".

Some of the leading textile groups, such as Morarji, JCT and Arvind Mafatlal, have shown interest in participating in cotton cultivation on a large scale. In what is seen as a ground-breaking venture, Arvind Mafatlal will team up with the Cotton Corporation of India to grow cotton in Gujarat.

Obviously, the textiles industry, with 31.25m spindles, 209,656 open-end rotors and 139,320 looms, wants the assurance that there will be easy availability of natural and man-made fibres. As well as the big textiles corporations, India has more than 1,000 small spinning factories and a large number of handloom units, which produced 7.02bn sq m of cloth in 1995-96.

Despite supply-and-demand worries, the industry does have cause for optimism. The federal budget for 1996-97 offered it several concessions, including the lowering of customs duty on textile and garment-making machinery. According to Mr O.P. Lohia, managing director of Indo Rama Synthetics, the reduction in duty on synthetic fibres and filament yarns will give a "big boost to demand". "I am expecting a growth of 30 per cent for polyester staple fibre (PSF) this year. The growth rate will be at least 25 per cent next year," he says.

Mr Lohia says Indo Rama, and fellow textiles companies, Reliance and Sanghi, have created a capacity of 175,000 tonnes of PSF in the current year. But the manufacturers are not facing any problem in selling the additional production. According to him, the duty restructuring will bring about a "desirable shift in demand from cotton fibre to man-made and blended fibres over a period of time. The Indian consumer wants durable fabrics at a reasonable price".

The greater use of man-made fibres for clothing the millions of Indians will enable the country to export much higher quantities of cotton yarn and fabrics.

The textile industry sold goods worth $8.69bn in the world market last year and had a share of 27.41 per cent of the country's total exports. Mr Kanoria says India's income from textiles would have been still higher had the government not continued to "impose a quantitative ceiling on the overseas sale of cotton yarn".

Government policy is not the only brake on exports. Poor technology, it is argued, weakens Indian companies' competitiveness. Mr Agarwal says the exporting mills should invest in processing plants to enhance their products and realise a higher unit value from exports. Industry officials acknowledge that mills have not kept pace with the technological changes.

Footing the bill for modernisation, however, may be problematic. Mr Kanoria says the industry needs to invest more than Rs20bn ($556m) a year in new plant. The ICMF has urged the government to reintroduce the textile modernisation fund, from which the mills used to get loans on concessional terms.

PROFILE **Reliance Industries**

A colossus falls down

The former king of Indian stocks will find repairing its battered reputation hard

Few companies spring surprises like Reliance Industries, the Indian petrochemicals-to-textiles group.

When the group chairman, Mr Dhirubhai Ambani, abandoned his traditional practice of detailing the state of current trading at Reliance's annual general meeting in July, it was expected that the company would break its 10-year plus record by reporting first-half results that showed a drop in profits.

Falls in the price of petrochemicals, flat volume growth and the imposition of a minimum 12.9 per cent corporate tax had been almost universally expected to have cut sharply the company's net profit in the six months to September 30.

In the end, Reliance stunned the market by posting a marginal increase in net profit, a performance that far exceeded even the most optimistic forecasts.

The results are not enough, however, to rebuild confidence in the company. Reliance remains in the top five of any analyst's list of the most significant Indian companies, but during the past two years has seen its dominant position over corporate life slip amid persistent controversy.

After rapid growth through the 1980s, the company bestrode the Indian sharemarket in the early 1990s as its undisputed leader. It had the largest market capitalisation of any listed company and the most actively-traded shares.

Today, many foreign institutional investors refuse to touch Reliance's shares. The State Bank of India, the country's largest commercial bank, has taken over its role as share-market leader and even the once-frenetic speculative activity in the stock has dried up.

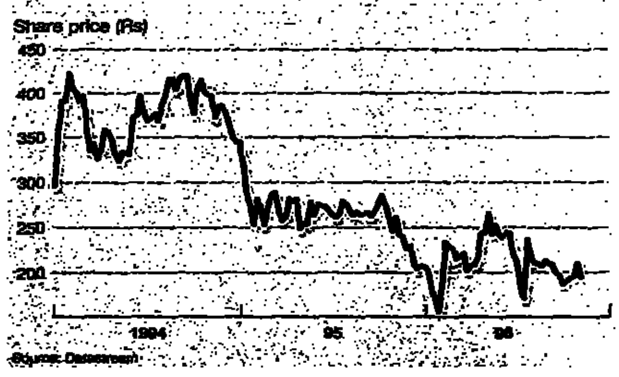
Ring a dealer at a Bombay broker for the price of Reliance and they may now have to check their screens. Even as early as the start of the year, that would have been largely unthinkable.

The company's share price has plummeted from a peak of Rs433 in January 1994 to a low of Rs150 earlier this year – although it has since rebounded above Rs200.

Analysts say things started to go wrong after a controversial private placement of shares in 1994 to state-owned domestic institutions led by the Unit Trust of India, the biggest investor.

With little warning, the company placed 24.5m shares at Rs385 to the institutions, resulting in an equity dilution of about 7 to 8 per cent. The move widely alienated many foreign investors. "It was their first big mistake. Up until then, they had done everything right," says one analyst with a foreign brokerage.

Reliance Industries



Source: Datastream

Further concern was caused by a merger of two group companies, Reliance Polypropylene and Reliance Ethylene, into Reliance Industries in January 1995. Analysts say the union led to a further equity dilution of about 20 to 25 per cent.

Then came the start of a long-running controversy over complex deals involving the issue of duplicate share certificates to the former physiotherapist of Mr Ambani, and the switching of more than 1.5m share certificates in the company during the transfer process.

This led to a bitter tussle between Reliance and the Bombay Stock Exchange. The BSE suspended Reliance for three days in November last year for "various acts of omission and negligence" regarding the deals. In retaliation, Reliance threatened to de-list from the bourse and alleged two exchange directors were involved in a "sustained vilification" campaign against it.

The drama was heightened by massive swings in Reliance's share price as "bull" and "bear" traders waged a battle to control the stock that virtually sidelined the rest of the Indian sharemarket.

Volatile share swings make it hard to predict the future performance of the stock.

At the same time, Reliance is facing new competition on the market as the government's privatisation programme leads to the sale of large state assets.

On the positive side, its earnings are expected to rebound aggressively in 1997-98 as massive new production capacities come onstream. In a bid to become a global force in petrochemicals, Reliance has launched an expansion programme that will see its manufacturing capacity rise from 1.5m tonnes in the year to March 1996 to 6m tonnes by mid-1997.

When the expansion is completed, the company says its Hazira facility near Bombay will be the world's largest petrochemicals complex. "After taking into account internal transfers, the company is virtually doubling in size in terms of saleable output," one analyst says.

The earnings growth flowing from this expansion should prompt a reassessment of the company. However, restoring its former status will not be easy. Many investors are likely to remain wary until there are fewer surprises and more transparency.

Tony Tassell

8 INDIA: Liberalisation

■ **Telecommunications:** by Alexander Nicoll

Mixed signals on competition

The contrasting stories of the liberalisation of the cellular and fixed-line sectors

The mobile telephone has become one of the visible symbols of India's economic liberalisation. In the 1996 general elections, politicians campaigning in the main cities were rarely to be seen without one. Go to the health clubs in Delhi's best hotels and you will hear a symphony of unanswered cellphones in the changing rooms.

Since they are only available to the well-off, cellular telephones will make little impact on India's telephone density rate of one line per 100 people, one of the lowest in the world.

But their arrival is the latest stage in what should be a sweeping reorganisation and opening of India's notoriously inadequate telephone system.

The restructuring began in the 1980s, when the public sector's monopoly on equipment manufacturing was abolished. But it came under way in earnest with the economic reform programme of 1991, when equipment manufacture was thrown open to foreign investment.

In 1992, bids were invited from the private sector to operate cellular services in the four biggest cities and paging services in 27 cities. Legal disputes over the tendering process prevented these from actually being launched until 1995. In that year, the government also invited private bids to operate cellular services in the rest of India and basic fixed-line services across the whole country.

The introduction of cellular services is proceeding smoothly by Indian standards, but controversies surrounding the tenders have delayed the launching of new fixed-line services in competition with the government's Department of Telecommunications (DoT). The DoT still operates all services except those in Bombay and Delhi, which are the preserve of the public sector Mahanagar Telephone Nigam Ltd (MTNL), and international services, over which state-controlled Videsh Sanchar Nigam Ltd (VSNL) has a monopoly.

There are considerable doubts about whether the new fixed-line operators, once licensed, will be able to raise the necessary financing and build profitable businesses. The heavy up-front costs imposed by the government upon them – licence fees alone total $21bn – may make it difficult for them to price their services attractively and thus establish broad-based competition to the DoT.

In contrast, prices at which stakes in cellular operators have been changing hands indicate the market's belief in their strong potential.

If the cost of the instruments themselves drops, competition between operators on prices of services is likely to intensify. These two factors will make cellular telephony cheaper and therefore attractive to a much broader market – perhaps even at the expense of fixed-line services.

Among cellular operators, AT&T of the US has licences for Maharashtra and Gujarat, the two most industrialised states, in partnership with the Birla group. The licence fees total $1bn over 10 years and capital expenditure is projected at $500m.

Though the financing has not yet been tied up, the group is aiming to launch within the next few weeks and has an annual turnover target of $1bn within eight years.

The cellular operators in the four main cities report growing use of their networks per customer. Some expect to be profitable within a year.

At the heart of the problems surrounding the fixed-line liberalisation is the government's failure to establish a regulator to mediate in disputes between the present and future telephone companies. A bill to set up the Telecom Regulatory Authority of India is due to be tabled in parliament this winter. But so far, the DoT has been acting as the regulator, determining the terms on which new entrants will be allowed to compete with it. Given this basic conflict of interest, it is remarkable that telecoms privatisation has proceeded as far as it has.

When the tenders were announced, international telephone companies flocked to India. In spite of the controversies surrounding foreign investment in India, the government actually made it mandatory in telecoms; it stipulated that each bidder must have an experienced foreign operator as an equity participant up to a maximum of 49 per cent.

However, the government's boldness in throwing open telecoms to private operators, has been negated by the DoT's instinctive imposition of restrictions.

Most important was the decision to retain control of all long-distance telephone services, which are very expensive for the customer. The government divided the country into "circles", and set a limit of two cellular operators per circle and just one private fixed-line operator per circle in competition with the DoT.

Calls made via a new private operator, whether cellular or fixed-line, must interface with the DoT's network if they go out of the "circle" in which the operator has a licence – even if the operator has licences in two contiguous circles. This also means that all the new operators must seek to make a living through local calls, although India's size means calls within circles can be over quite long distances.

Second, the government opted to demand up-front fees from new operators and to award licences on the basis of the highest licence-fee bids. The fees are in addition to a host of other charges, including per-customer and per-call levies and inter-connection charges, over and above the cost of developing a new network.

The third obstacle to the fixed-line tenders came when the first round of bidding in 1995 was dominated by Himachal Futuristic Communications Ltd (HFCL), a company that had grown rapidly thanks to equipment orders from the DoT and which hailed from the same state, Himachal Pradesh, as the then minister for communications, Mr Sukh Ram. Mr Ram is now facing corruption charges connected with other equipment supply tenders.

HFCL was the highest bidder by far in nine of the 21 circles, putting in licence fee bids totalling $24bn, thought in the industry to be unrealistically high. HFCL, which was most unlikely to meet these commitments, was saved by the imposition after the bids were opened of a limit of three top-category circles on all operators. Encouraged by the high level of HFCL's bids, the DoT also rejected the winning bids in a number of circles and called a new tender.

These decisions disillusioned a number of foreign companies, resulting in lukewarm responses in the second round and then in a third round of bids.

The result is that eight circles are inching towards the award of licences, while the prospects are dim in the four circles won by HFCL, whose bank guarantees the DoT is seeking to encash, and in Tamil Nadu where the DoT has cancelled its letter of intent to award a licence to a RPG/NTT consortium following a dispute. In eight circles, there are currently no bids.

Further obstacles came in achieving assignability of licences – an essential requirement of banks that might finance the new franchises – and in reaching agreements on inter-connection with the DoT network, for which the DoT sought to charge a high price.

But finance is the biggest hurdle for all new cellular and fixed-line operators.

While the new telecom operators represent promising business for international banks, the sheer volume of capital needed is daunting, given that the rough cost of setting up a new network is generally about $1,000 per line.

Winning bids for fixed-line services

(One private operator to be licensed per circle)

Circle	Winner (foreign collaborator)	Bid Rs bn	Status
Delhi	[illegible]	[illegible]	[illegible]
Maharashtra	Hughes Ispat (Hughes, US)	139	Licence expected soon
Tamil Nadu	[illegible]	[illegible]	[illegible]
UP (West)	HFCL (Bezeq/Shinawatra	66	Dispute in court
Karnataka	[illegible]	[illegible]	[illegible]
Punjab	Essar (Bell Atlantic, US)	46	LoI accepted
Andhra P'sh	[illegible]	42	Licence expected soon
Haryana	HFCL (Bezeq/Shinawatra)	40	Dispute in court
Gujarat	[illegible]	[illegible]	[illegible]
Orissa	HFCL (Bezeq/Shinawatra)	20	Dispute in court
Rajasthan	[illegible]	[illegible]	[illegible]
Madhya P'sh	Bharti (Stet, Italy)	7	LoI awaited
Bihar	[illegible]	[illegible]	[illegible]

Total winning bids: Rs732bn ($20.9bn)

Notes: "LoI" is DoT's letter of intent. Issue of licence follows company's acceptance of letter of intent. Kerala, Uttar Pradesh (East), West Bengal, Assam, Himachal Pradesh, North East, Jammu & Kashmir and Andaman & Nicobar islands circles all to be re-tendered.
Sources: Paragrine, Swiss Telecom, Business Standard

■ **Broking houses:** by Tony Tassell

No room at the investing industry?

An influx of foreign brokers means some form of rationalisation is expected

For international broking houses, India is fast becoming a crowded market.

Despite an overall poor performance by the stock market over the past two years, foreign brokers are still queueing up to set up shop in the country. At last count, more than 25 had started domestic broking operations or opened representative offices in India since 1992, most of them entering this year.

The influx is likely to accelerate the deep changes in the Indian financial market. As in other countries, the big international houses have virtually taken over the broking industry since they were allowed to enter the market four years ago.

Analysts say that of the top six brokers by market share in India, nearly all are subsidiaries or associates of an international house.

"If you are an emerging markets broker, you have to be in India. It has about a third of the population of developing countries and sooner or later the size of the market will reflect that," says the head of one recent entrant.

Mr Andy Doves, chief executive officer with brokers Jardine Fleming India, is also unequivocal about the long-term potential of the Indian market: "Over 10 years, we see India growing in size to be on par with Hong Kong, Thailand or Seoul".

However, there is growing concern that the thin, illiquid Indian market may be unable to support a large number of brokers. Mr Doves admits there is likely to be some rationalisation of both foreign firms and domestic brokers.

In the current depressed stock market conditions, the profitability of most of the brokers with domestic broking arms is believed to be marginal except for those in the top six by market share. And there is little sign yet of a lift in conditions.

The market was one of the worst performing in 1995 and after a frenetic rally in the first six months of 1996, share prices have slumped back to levels around those seen at the start of the year. The outlook for the medium term is at best subdued.

In addition, there are signs that there may be too many brokers chasing too few investors. Foreign investment in Indian shares has more than doubled this year to $2.77bn but the number of institutional investors interested in direct investment in India is limited.

"The market is massively overbroked," says the head of the Indian arm of a UK fund group, adding that the list of brokers empanelled to do business with his firm has already reached full capacity.

One foreign brokerage, Oppenheimer, is already set to withdraw from India. Although this is more to do with the expected sale of the company than scepticism about the future of the market, Oppenheimer's head for India, Mr Anish Trivedi, thinks it will probably set a trend. "We will probably be the first to withdraw from the Indian market but we certainly won't be the last," he says.

However, at this stage, most of the traffic is going the other way, with the majority of brokers undaunted by the prospect of overcrowding.

"In India, the market is smaller, so you have a smaller pie to fight over," says Mr Gary Coull, chief executive of Credit Lyonnais Securities. "However, if you have good research, good contacts, good execution and the ability to tap blocks of stocks, then you can win a disproportionate amount of the pie and make money. If you don't, you won't.

Brokers with current domestic broking operations include Jardine Fleming, Peregrine, WI Carr, Merrill Lynch, Morgan Stanley, Crosby Securities, Goldman Sachs, Seamico Marlin, HG Asia, Credit Lyonnais Securities, Barings and UBS.

Brokers planning to enter the domestic business shortly include NatWest Markets, Deutsche Morgan Grenfell, SBC Warburg, Kleinwort Benson, Barclays de Zoete Wedd, Caspian and Credit Suisse First Boston.

Most of the newer entrants are likely to follow the joint venture route trod by the longer-established firms. Regulations require that at least 25 per cent of the domestic broking operation must be held by a local party or a non-resident Indian.

Among the earlier joint venture deals, Goldman Sachs tied up with local brokers Kotak Mahindra, Merrill Lynch with the brokers DSP Financial Consultants, Seamico Marlin with the Birla cement-to-steel group and James Capel with brokers Batlivala and Karani.

BZW is now understood to be negotiating a joint venture with brokers Prabhudas Lilladher. CSFB has an informal arrangement with Lloyds Securities and JM Financial Consultants for domestic broking but is looking at other potential joint venture partners, and Kleinwort Benson is rumoured to be talking to a few local finance companies.

NatWest Markets is understood to be considering a joint venture with HDFC Bank. The UK firm already holds a stake in HDFC Bank, a subsidiary of Housing Development Finance Company.

The continued entry of foreign brokers is likely to put further pressure on the few remaining independent Indian broking houses. Local firms have struggled to compete with the capital, resources and contacts of foreign houses.

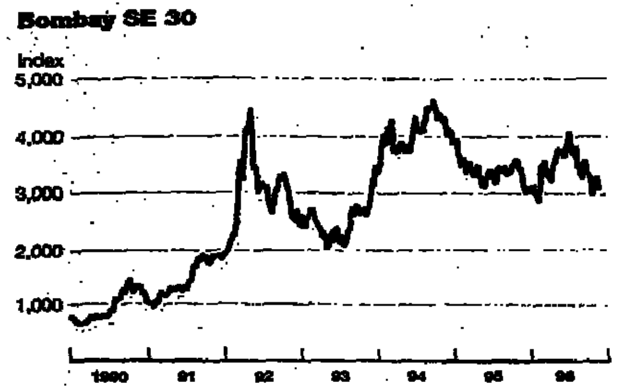
However, the process has not been all negative.

Along with attracting foreign investment into the country, the foreign brokers have acted as a catalyst for widespread cultural changes in the broking market, introducing higher standards of professionalism, better research and tighter compliance regulations.

Another side-effect of the influx of foreign brokers has been an escalation in salaries for local staff. Some top-level research analysts are now being paid up to $100,000 a year, an enormous sum in India. However, money is not the only consideration for some local analysts and dealers.

"I get a few offers now and then from other broking houses. Apart from the money, the main thing to consider is whether they [the firm] will be around in a couple of years' time," one local dealer says.

Bombay SE 30



Source: Datastream

PROFILE Unit Trust of India

Bulwark under pressure

The restructuring of the financial leviathan is unlikely to silence all its critics

Unit Trust of India (UTI), the country's largest mutual fund organisation and its biggest investor, is looking for an owner.

Since its foundation 32 years ago, the behemoth of the Indian financial market has been running without one. This conservative institution is now being forced, however, to restructure in order to develop into a broad-based financial services conglomerate, encompassing its traditional mutual fund operations, stockbroking, credit rating services, custodial operations and retail banking.

The restructuring, which is likely to result in a consortium of financial institutions and the government taking ownership of the trust, follows rising criticism of UTI's operations. It also coincides with mounting challenges to its dominance of the Indian financial market as the competition introduced by economic liberalisation in 1991 increases.

By any assessment, UTI is big. The institution's equity portfolio accounts for about 9 per cent of the market capitalisation of the Bombay Stock Exchange. However, this is lower than the 12 per cent level of a few years ago.

With a far-reaching network of agents around nearly every corner of the country, UTI used to be one of the few alternatives Indian investors had to bank offerings and direct investment in equities. Given restrictions on the investment policies of state-run insurance companies, it was the only domestic institution of note active in equities and, at its peak, its movements virtually dictated the direction of the stock market.

A broker's performance then largely depended on his contacts with the trust, whether as a result of gaining business from it, or because he used its actions as a guide to making investment decisions. At Diwali, the November festival in India – equivalent in importance to New Year in the West – the desks of UTI investment officers used to groan under the weight of gifts traditionally exchanged by business contacts.

Although the Diwali gifts still flow, UTI has had little to cheer about over the past two years. Depressed stock market conditions and a massive out-flow of funds from redemptions have coincided with increasing questioning of its role and operations.

A liquidity crunch in the Indian economy last year, coupled with tax regulation changes, triggered an upsurge in redemptions of units in UTI schemes from Rs36.41bn in 1993-94 to Rs125.42bn in 1994-95 and Rs108.0bn in 1995-96.

This has forced UTI, traditionally a bulwark of the market, to turn into a net seller of equities for much of the past two years. UTI selling was an important factor behind a slide in the market's most prominent indicator, the BSE30 index, from a peak of 4,131 in September 1994 to a low this year of 2,820 in June.

This fall triggered further redemptions and deterred investors from injecting new funds into UTI's equity schemes. In addition, UTI was forced to sell some of its crown jewel holdings as buyers could not be found for lesser-rated scrips. The sale of the blue-chip stocks affected growth prospects for UTI's schemes.

The situation came to } a head when, in a move unprecedented in its history, UTI had to cut its dividend payment for the year to June 30, 1996.

There are signs that the redemption pressure on UTI is easing. In the three months to September 30, redemptions fell to just Rs14bn from Rs26bn in the same period a year earlier. However, with share market conditions still poor, fresh inflows into UTI's equity schemes remain low, although demand for its debt-focused mutual funds have picked up.

Critics have nevertheless continued to question its approach, pointing to a lack of transparency and accountability. Much of the criticism is levelled at a controversial private placement of shares in Reliance Industries, the textiles to petrochemicals group, by a consortium of financial institutions led by the UTI in 1994 (see profile page 7).

UTI itself took up Rs7.72bn of shares in Reliance at a price of Rs385 each, a level well above the then market price. The investment increased UTI's exposure to Reliance above the regulatory limits for other mutual funds and translated into a massive notional loss for the trust. Shares in Reliance fell to a low of Rs150 earlier this year, although they have since rebounded above Rs200.

Meanwhile, UTI has faced allegations of potential conflicts of interest and had its relationship with the government questioned.

Although it has no owner, the appointment of its senior management is effectively decided by the ministry of finance and critics say the trust is often called upon to support government activities such as market borrowings or the offloading of shares in public sector enterprises.

There are also fears of potential conflicts because nominees of other financial institutions such as State Bank of India, Industrial Credit and Investment Corp of India sit on the board of the trust. These are criticisms the restructuring will try to answer.

Mr Jagdish Capoor, UTI acting chairman, has promised to improve accountability and transparency. He has also said that under the most likely model for restructuring a holding company would be formed in which shares would be offered to financial institutions and the government.

This holding company would set up an asset management company that would oversee all fund management activities. It would also have stakes in UTI's other operations.

However, there are signs that the restructuring will not answer all the criticisms. Given that the government and other financial institutions will have stakes in the new holding company, the potential for conflicts of interest will still exist.

Moreover, the process may have little impact on corporate practice. Mr Capoor says that both the staff of UTI and the culture of the trust will largely remain the same. In an increasingly competitive environment, this may not be good enough.

Tony Tassell

■ **Education:** by Lisa Vaughan

The steepest of learning curves

The drive to improve female literacy rates often falls foul of social tradition

Meena, a young Indian village girl, is becoming something of a national symbol. In an animated video now played in some of India's most disadvantaged villages, she exhorts parents to break with tradition and send their daughters to school.

The Unicef-sponsored video tries to raise the status of women by showing how much girls contribute to the running of households. In one sequence, Meena swaps roles with her pampered brother but he is unable to keep up with her chores.

The video is just one example of efforts to achieve one of India's biggest and most complex developmental goals: improving the education of its 930m people, particularly women.

Almost 50 years since independence, just over half of India's people can read and write. The gap between men and women is alarming: the 1991 census, India's latest, showed just 39 per cent of women were literate, compared with 64 per cent of men.

School enrolments have risen gradually but drop-out levels remain high, especially among girls. In 1993-94, an estimated 39 per cent of all girls and 35 per cent of boys in Classes 1 to V (ages 6 to 11) dropped out, according to government data.

Although every Indian government, political party and learned committee has advocated universal education for children aged 6-14, those figures have remained stable for about 30 years, educators say.

"We are much better at making plans than we are at carrying them out. Education has never been a vote-getter," Dr Kuldeep Mathur, director of India's National Institute of Educational Planning and Administration, says.

India ranks above the South Asian average and sub-Saharan Africa in educating its girls, but lags far behind China, Unesco league tables show.

There is no question that education is crucial for economic and social development, and that educating girls profoundly affects a country's health, population control and infant mortality.

The business community is slowly realising that illiteracy will affect its ability to compete internationally, and a few Indian companies are sponsoring schools, the Confederation of Indian Industry says.

Historical regional disparities and state powers over education policies mean that there is huge variation in literacy levels from state to state, and where they are low, girls fare the worst. The south-western state of Kerala scores highest nationally with female literacy of 86 per cent while at the bottom is poorer, north-eastern Bihar with a female literacy average of 22 per cent.

Girls face an overwhelming array of socio-cultural barriers to education. For centuries, caste and religious traditions have led to discrimination against women.

Daughters are expected to help with domestic chores and sibling care at home until they marry, when they become the property of their in-laws. Baby girls represent a financial liability to the poor, and female infanticide still occurs.

Dr Usha Nayar, head of the women's student department at India's National Council of Educational Research and Training, says a positive development was the government's recognition in 1986 that all education policies must redress the gender imbalance.

However, although most parents today are willing to send their daughters to school, economic necessity often means they have to cut their education short.

"As soon as the family's economic situation improves, so does the number of female children in school," says Dr Nayar.

Parental poverty is not the only problem. Girls' experiences in school are generally bad, aid workers say. Most teachers are male, and favour the boys. Girls tend to sit in the back, are infrequently called on, and have been intimidated, molested or even raped by teachers or older boys. Those of low caste or tribal origin can be made to feel unwelcome.

Classroom conditions in rural India, where 75 per cent of the population lives, are usually dismal. Students sit on dirt or cement floors: there are no separate toilet facilities for girls; the supply of educational material is limited, textbooks are out of date; teacher attendance is irregular.

Teaching methods tend to depend largely on rote memorisation. Consequently, pupils easily lose interest; even children who pass Class V still cannot read and write, and many drop out then.

These problems have been identified, widely publicised and are beginning to be tackled. The government has recently pledged to spend 5 to 6 per cent of India's annual GDP on education, equivalent to about £320bn.

All government and foreign-aided programmes are now aimed at educating the hardest-to-reach groups – girls and children of tribal and low-caste families. Curricula, textbooks and materials are being redesigned to be more child-oriented and gender-neutral. More female teachers are being recruited.

The government's biggest scheme is the District Primary Education Programme (DPEP), which targets more than 100 disadvantaged areas. Three quarters funded by the World Bank, with a total budget of $1.2bn over six years, it aims to boost learning achievement and reduce gender inequality through strategies involving the community.

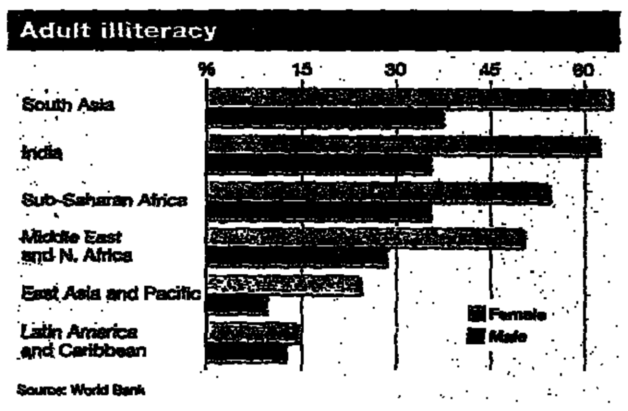
"We are making progress. Enrolment is going up," says Mr Adriaan Verspoor, World Bank education adviser for India, Nepal and Bhutan. "But the challenge is clearly so enormous that it is going to take a long time."

Unicef, with its "joyful learning" approach, has improved the quality of education in 125 backward districts, using campaigns to motivate teachers and child-oriented programmes designed to keep pupils in school. The costs are relatively small. Measures as simple as giving teachers Rs500 (£10) to decorate classrooms have succeeded in boosting the morale of teachers and children, says Unicef's education head for India, Mr David Harding.

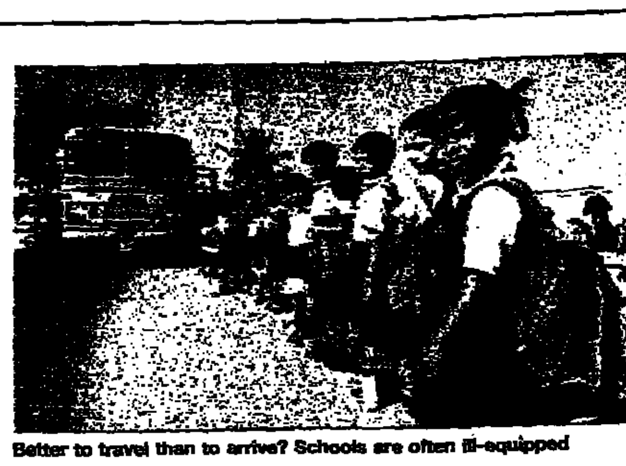
Scores of non-governmental groups, Indian and foreign, are working for women's education using various strategies. Unesco's Learning Without Frontiers project aims to reach those unable to attend school, such as women and adolescent girls at home, children working in factories and female farmers, through evening classes. It is considering satellite link-ups for remote villages.

Indian educators believe the programmes that best promote girls' education are those that, like the Swedish-assisted Lok Jumbish project in Rajasthan, involve communities and village councils. A Dutch-assisted project, Mahila Samakhya (Education for Women's Equality), seeks to encourage women in four states to share in decision-making and ultimately to fight for a better life for their daughters. "In India we have to dig our own wells, to make the people self-sufficient," Dr Nayar says.

Adult illiteracy



Source: World Bank



Better to travel than to arrive? Schools are often ill-equipped

Agenda change

Continued from page 1

new caste-based and, most significantly, regionally-rooted parties. Many political analysts now doubt whether it will be possible to conceive of a truly "national" Indian political party for the foreseeable future.

This effective devolution of political power to India's regions coincides with the greater economic autonomy at state level effectively conferred by the dismantling of the Delhi-based "licence Raj", whereby central government licensed all industries. And the two trends are likely to become self-reinforcing. At one level, this process has engendered a strong competition for investment between India's states, itself becoming a powerful motor for reform. At another, however, it complicates the task of governance from the centre, particularly with regard to reforms in areas such as agriculture – almost untouched by five years of liberalisation so far – or power, which, in the Indian constitution, fall jointly under centre and state jurisdiction.

A multi-hued, coalition government in the centre may, therefore, be the best, most accurate representation of the political kaleidoscope emerging from the diminishing shadows of an ailing national Congress party. But it will not necessarily prove a sufficiently cohesive or politically powerful unit to force through voluntarily some of the more difficult reforms still on India's agenda.

Some, such as economists Messrs Vijay Joshi and I.M. D. Little, believe that the "second phase of reforms" might be possible only involuntarily. As was the case in the first phase of Mr Rao, it may be triggered, they say by an economic crisis – one towards which they argue in their recent book *India's Economic Reforms 1991-2001*, the country is heading because of its recent string of "unsustainable" fiscal deficits.

The hope otherwise must be that outstanding reforms are not, in the name of "consensus nursing", simply deferred as too politically contentious. There is this danger. Some of the most contentious pending reforms have been ominously pushed by the UF into the in-trays of yet more government committees or commissions.

A disinvestment commission has been set up to examine the reform and possible privatisation of state enterprises. Another new committee is to consider further tariff reforms. An expenditure committee will eventually be entrusted with examining government spending, and the thorny political issue of subsidies.

But until India's high fiscal deficit, ailing public sector, unreformed insurance industry, high tariffs, poor infrastructure and other agenda items are addressed vigorously, India will remain, as its senior finance ministry officials concede, unable to reach the 7-8 per cent economic growth rates needed to end the poverty that afflicts hundreds of millions of its people.